

AUSTRALIAN NUFFIELD FARMING
SCHOLARSHIP TRUST

CAPITAL FOR AGRICULTURE
MARKETING OUR PRODUCTS

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SCHOLARSHIP OBJECTIVES

It has long been acknowledged that in agriculture the likelihood of changes in supply would be readily seen in the price changes. In Australia we have been able to offset price changes by introducing new technology: increased productivity and greatly improved farm management budget controls.

However, in recent times prices of many of our principal exports, including wool in 1971, and beef and dairy products currently have seen disastrous price falls. The effect of price changes of this magnitude on the farm cash flow have been disastrous.

It was with this background of increasing productivity and efficiency at a rate double the rest of the community that I wanted to seek the answer as to how income stability can be achieved at the farm level, while also looking to the long term of where the capital of agriculture will be found.

CAPITAL FOR AGRICULTURE

In the U.K. agriculture has become a very capital intensive industry, and, at the same time, has remained as basically a family operated business, where the capital is provided and the work done by members of the family. It is therefore interesting to look at the structure of this industry and see how it has adjusted and changed with the intensifying of capital and heavy burden of capital taxes - and likely changes in the future.

TENURE - Size of Holding:

The ownership of the land is perhaps the most interesting aspect of the capital structure and how the changes have occurred in ownership patterns. If we take a look from 1914 when 89% of all land was held by tenants from a landlord and only 11% was owner-occupied, there has been a change to the present day when 61% is owner-occupied and only 39% rented. Also, during this change in the ownership of the land, significant changes have taken place in the size of the operation units. The upward movement in size has been significant, particularly since the Agricultural Act of 1948, which provided new incentives for greater production following severe food shortages of the war period 1939-45. In 1915 75% of farms were less than 300 acres, and by 1975 this figure had been reduced to 58%, resulting in larger, more efficient farms, and a greater amount of capital per unit.

AGRICULTURAL BALANCE SHEET:

When an industry has a clear distinction of "landlord" and "tenant" assets, an interesting balance sheet can be drawn up. These figures are calculated on the basis of 176,000 full-time enterprises, plus 102,000 part-time as compiled by the Ministry of Agriculture:-

U.K. AGRICULTURAL BALANCE SHEET JUNE 1974

£M

<u>Landlord Assets</u>		Owners net worth 19,600 - 92%
Land, buildings, dwellings and fixed equipment	16,870 = 79%	
		Long term loans 590 = 3%
<u>Tenants Assets</u>		
Machinery, vehicles, live- stock, coops, stores, cultivation, debtors, cash and bank balances	4,510 = 21%	Short-term borrowings & trade credit 1,190 = 5%
	£21,380 = 100%	£21,380 = 100%

From the balance sheet the ratio of what is regarded as landlord assets and tenant assets in the National Agricultural Accounts is 4:1. The total assets are only financed by outside capital to a level of 8% - a low level of borrowings compared to other industries and indicating a small profit margin and limited ability to service higher borrowings within the industry.

If 61% of the agricultural holdings are owner-occupied, then this is almost certainly financed in the form of a small family business by the owners and their families. Of the remaining 39% tenanted land, only 9% is owned by institutions, thereby indicating that most capital in agriculture is held by families.

INDUSTRIAL AND AGRICULTURAL COMPARISONS:

In an industrialized western society a fundamental difference in the capital structure and the returns to the capital employed exists between the industrial and agricultural sectors.

A Comparison of Capital and Profitability 1974-75

	<u>Trading Profit (£M)</u>	<u>Gross Assets Employed (£M)</u>	<u>Trading Profits % of Gross Assets</u>
Marks & Spencer (retailers)	82	491	16.7
I.C.I. (chemicals, etc.)	457	3,165	14.5
Dowry Group	8	67	12.0
G.K.H. (steel)	102	895	11.4
U.K. Agriculture	1,235	21,380	5.8
National Coal Board	34	944	3.6

It can be seen that industrial businesses are achieving net returns on investment of 2 - 3 times that of agriculture. While the net return of 5.8% in agriculture is further evidence of why low level of borrowings exist.

LAND VALUES:

Earlier we saw that 79% of total farm assets were employed in land ownership or landlords' capital and therefore any change in land values will have significant changes on the structure, equity and borrowing ability of the industry. With such a large percentage of capital in a tangible asset, a look at the comparison of investment in land and that of the industrial ordinary index perhaps gives a clear indication of why land has been a favourable investment.

Appendix 1 and 2.

WHAT ARE THE FACTORS INFLUENCING LAND VALUES:

It would appear there have been several factors influencing the upward trend and the least of which is the net cash return.

Perhaps one significant reason has been the 50,000-60,000 acres per year which is being lost to agriculture for urban development. In the early years following the War, this development took in much of the better land. Now, however, strict controls apply to development of agricultural land for urban purposes.

Greater social value and "quality of life" factors have contributed to increased urban resources being channelled into the rural retreats, particularly where estates have been broken up, thereby providing numerous farm houses as well as viable farm areas. Better and faster commutor transport services have widened the expanse of an acceptable commuting distance, which in some cases can be up to 120 miles each way every day.

Smaller farms in remote parts of Wales and Scotland have remained viable and values increased by seizing on the affluence of the urban community by providing amenity for which they are well rewarded.

Also, perhaps Government legislation has had a significant effect. Firstly, within the Capital Gains Legislation there is "Roll-over" provision which is most attractive to outside as well as farming investors. This gives them the opportunity of buying land, and selling at inflated values - "Rolling over", and paying no capital gains tax. Secondly, until 1975, when Capital Transfer Tax was introduced, estate duty concessions of 45% added additional weight to land demand from urban investors.

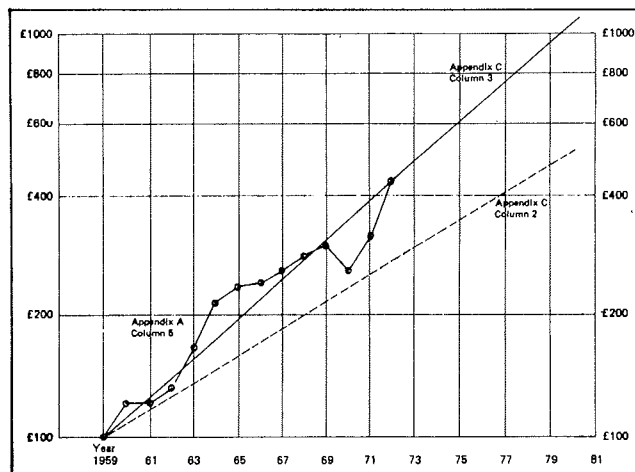
LAND VALUE SPIRAL:

The land price spiral really got underway in the late 1950's. However, it is interesting that with the advent of mechanization in the late 1930's, early 1940's, a similar spiral occurred. The figures in the graph show a compound increase of 12% from 1959 to 1971. Indications are that this trend will continue into the 1980's.

AGRICULTURAL LAND VALUES £ per acre 1959-1972 and projected to 1980

Figure 2

Appendix A Page 23
Column 5 - Land values for vacant possession land (1959 = 100) of high quality farms sold at public auction in South and East England (Source: A. H. Maunder).
Appendix C page 25.
Column 3 - Value of high quality land projected from 1959 at a compound growth rate of 12% per annum.
Appendix C
Column 2 - Value of overall average quality land projected from 1959 at a compound growth rate of 8% per annum.

LAND RENTAL RETURNS:

When a substantial proportion of land is tenanted, a good guide to rental value can be found.

New tenancies being created are valued at 4-5% of the capital value of the land, while many of the old tenancies of family estates are still yielding 1½ - 3% gross. Usually estates in this bracket have been let for many years, and with a special relationship between landlord and tenant - thus allowing for the reduced rental. However, due to recent introduction of Capital Transfer Tax many of these older concessional tenancies are being renewed at much higher levels.

SECURITY OF TENURE:

In many cases large estates have had families as tenants for generations - the new arrangements for letting are being made with due regard to expertise and ability of the son. Recently, however, a bill has been put through Parliament giving complete security of tenure to a son inheriting a tenancy from his father. In this case a landlord has no option but to continue the tenancy.

As a result of these law changes, many new "arrangements" are being drawn up by landlords to avoid creating a permanent tenancy. Perhaps non-participating partnerships are the most common where the landlord provides the land and the tenant the labour, stock and plant - enabling the landlord to voluntarily dissolve the partnership and terminate the farming arrangements.

TENANTS' CAPITAL:

We have seen that only 21% total farm capital is tenant capital for Stock, Plant and Machinery and Working Capital.

With the move of the U.K. to join the Common Market and adopt the "common agricultural policy" where a shift from cheap food with Government subsidizing of agriculture to the "consumer shall pay" concept; at the high price level of the E.E.C., a significant increase in the amount of working and livestock capital has been necessary. Higher feed cost for cereal grains; higher costs for capital livestock have, and will continue in the near future.

The move to larger, more intensive farms, coupled with higher inputs of fertilizer, machinery, labour will all add to an even capital requirement.

THE NEW REQUIREMENT - MARKETING FINANCE:

Traditionally, farmers have not been involved with this function beyond the farm gate. However, with rapid changes taking place in processing, packaging and new methods of retailing, changes are occurring which are having repercussions within the farm gate, and already many farmers are getting involved in packaging, processing, distribution - promotion - "the marketing of their product." This move beyond the farm gate has a further capital requirement above the already considerable amount for existing production requirements.

BUSINESS GROWTH:

One further comparison of agriculture with the industrial sector is worth making. An industrial business may start with only the owner. He may then take one or more partners and then form a limited liability private company, add additional shareholders to provide more capital, and finally become a listed public company.

However, in agriculture this chain of events seldom gets beyond a family private company, and so is denied access to outside equity capital, so necessary for development and growth.

There are several reasons why agriculture has not followed the rates of growth of industrial businesses:-

- (a) Farming businesses are small by comparison in both capital, turnover and profit.
- (b) Reluctance to accept outside equity participation.
- (c) Farming management is a very personal job, and managers need to be close to the actual operations, and it is difficult for him to develop a management team to operate

a large farm.

(d) Assets are cumbersome - difficult to realize - moreover - buy and sell compared to a factory, stock-in-trade and other commodities.

(e) Finally, farmers, in general, are perhaps content to forgo the expectation of greater profits and larger business for the intangible benefits of the life he leads.

SOURCES OF CAPITAL:

In all agricultural businesses there exists this distinction of landlord and tenant capital, and perhaps some answers to capitalization problems may be in this division:-

	<u>% of Total Farm Capital</u>	<u>Return on Total Farm Capital %</u>
Landlords' capital	79	1.5 - 5%
Tenants' capital	<u>21</u>	<u>7 - 3%</u>
	100 ===	3.2 - 9.3% =====

From the above figures we can see that 79% of the investment is gilt-edged, solid and returning a meagre 1.5 - 5% return. However, the tenants' capital is flexible, easily negotiable, moveable, and gives a yield of 7 - 3%, depending on management, prices and other variables. It is, I believe, in this area that some of the rationalization processes are able to take place, thereby giving the farmer a better return and less long term capital commitments.

THE CASE FOR OWNERSHIP VERSUS TENANCY OF LAND:

We have looked at the structure and capital allocations between

landlord and tenant. We have seen that 79% of assets are locked into a low yielding business, while the remainder are giving satisfactory returns, comparative to those of industry.

If a farmer attempts to Amortize the cost of his land from profits and purchases at the age of 25 to 30 years, it will take to the end of his working life, and major part of his after tax earnings are needed to be applied to this end, and at the time of his death on the transfer of his wealth to his successors, much, or even all, of his lifetime's toil will go to pay capital taxes. There is no point in living poor to die rich and lose a lifetime's work in taxes. This task is becoming even more difficult as land values rise at 12% compound (see figure _____), and incomes have to move into even higher tax brackets to meet loan commitments of land purchases - as well as day by day living expenses.

Equity participation in land ownership has been too long resisted by farmers. However, today it is a reality, coupled with pension funds - life insurance companies and the possibility of banking providing equity funds.

THE NEW SOURCES OF CAPITAL:

Institutional Buyers - In the 1970's these purchasers have become very active in the agricultural property market. Advisers are suggesting an agricultural land portfolio of 5-10% of total investments to these investors and while these figures are far from being achieved, up to 25% of land sold for the year 1974 was purchased by the institutions, the current average is 10-15%. Already they are a considerable force in the property market.

The object of these investments is the capital growth of 10-12% compound, and an income yield of 4-5% - a far healthier return than the industrial index offers. See Appendix 3.

Two very distinct preferences are shown by these buyers. Firstly, the estates need to be at least 800 acres and preference is given to the better class soil types.

Additional development capital for buildings, water supply and other major improvements is also provided, but the annual cost to the tenant is calculated at current interest rates on the total expenditure involved. Farmers are taking advantage of this new method of funding, and it is interesting that one of the largest and fastest growing farms in the U.K. started from a family farm of some 3,000 acres after the war, and is currently operating 23,000 acres of intensive agriculture; cereal crops; dried grass; potatoes, onions; dairy and sheep, and much of the funds required has come from the pension funds.

MARKETING OUR PRODUCTS

INTRODUCTION:

The early pioneers of this country were dependent on markets situated on the other side of the world, and as it was that wool, a product which was non-perishable, easy to transport, and suited to our environment, became our first and major export. Early settlers arranged the freight and shipping of their wool to Europe to be sold at auction in wool exchanges, such as Bradford. In the 1860's-70's, entrepreneurs entered the commodity trade and provided the marketing service to the settlers. Many of these original companies are still providing the same "service" with little fundamental changes to the methods employed last century. Most were based in the U.K. and had extensive connections with shipping and financial interest.

It is with this background that we look towards new methods and innovations to market our products in the 20th century. In setting out a programme for marketing any of our products, a fully integrated approach must be undertaken - taking the product from the breeding stage to the eventual consumer.

THE PRODUCT:

In any production of manufactured goods, we see the term "quality control" frequently used to define the uniformity of the goods, the consistency to type. In agriculture, because we believe variations exist between animal breeds- crop varieties and so forth, we have not been conscious of the necessity for strict "quality control." In any marketing programme "quality

control" must be the first objective in order that the product will meet with strict definable description.

PRODUCTION:

The production inputs to produce a product must have regard for the consumers requirements, and these can only be identified by the monitoring of consumer preferences. Perhaps a good example is a super-market survey of leeks to establish the consumer preference for the length of white stalk. Once established, these requirements are sent to the plant breeders to select varieties which meet customer preference. For farmers to correctly identify the production inputs, careful and specific information regarding the market performance of their product is of utmost importance. The "Market" must ensure that farmers have access to the input requirements.

Once having established the type of inputs, production techniques must ensure a uniformity of the reliable commodity, not only from an individual farm, but from a wider cross section of farms to give a large volume of a uniform product. Perhaps the best example of this is N.Z. lamb where 20-22 million carcasses are graded into four qualities with varying weight, but still within a small weight range. Stringent grading procedures, coupled with price penalties have ensured farmers produce a uniform product.

It is necessary that farmers objectively be guided by price to ensure the product meets requirements. The graph(Appendix 4) shows how quickly farmers react to a price penalty being applied to classified pigs in range 130-169 lbs. shows a dramatic reduction in fat thickness for then price penalties are applied.

Production methods and techniques are available to have a substantial influence on the eventual end products. For example, fast growing lambs slaughtered at low weights are not only the most efficient utilizer of farm feed, but also the most acceptable as a "finished" lamb in the market place. This, compared with over-fat lamb, which is inefficient in feed utilization (fat requires more feed than lean meat) and is also less acceptable in the market place, with wasteful trimming resulting. Within the Meat Industry a wide range of options exist - the market needs to clearly identify these options.

ASSEMBLY UNITS:

A requirement of marketing being uniform volume, an efficient assembly point for this production must be available. In the U.K. several lamb groups have been established to provide slaughter houses with a guaranteed number of uniform quality lamb and beef. The advantages over the auction system are several. Firstly, informed discussion between producer and processor as to type, weight of the animal ensures a high degree of uniformity, while processors are prepared to pass their cost savings of buying from local saleyards back to the producer and further advantage is reflected in a premium to producers of 1-2p. per lb. because of fully booked capacity at their slaughter houses.

PROCESSING - DISTRIBUTION - RETAILING:

It is within this sector, that the farm gate product is converted to a saleable product - by processors - then moved to the retail outlets, and it is traditional that farmers have seldom been involved in this sector. However, this is changing largely through co-operative companies set up by groups of farmers to engage usually in processing and distribut-

ion and sometimes retailing.

Farmers in the U.K., as here, have believed that there have been big profits within this sector, and while this may be true, it is usually restricted to a few larger businesses, who rely on large turnover with a small unit margin as compared to farmers with a small turnover and large unit margins.

Within this sector competition is strong, profit margins small, and the business time horizon very short. In other words, long term initiatives are very risky. As a consequence, this is a very conservative sector for radical changes in the market place.

COOPERATIVES:

In the U.K. cooperatives have not been as popular as in North America, but in 1973 there were 588 cooperatives with 344,000 members, turning over about 20% of U.K. agricultural output of £3,500 million. Many, however, are only input oriented, providing feedstuffs and fertilizer.

In Livestock sold, only 8% goes through cooperatives and 12% for grain. Progress in this area has been slow, compared with other members of the E.E.C. particularly the Danes, French and Dutch.

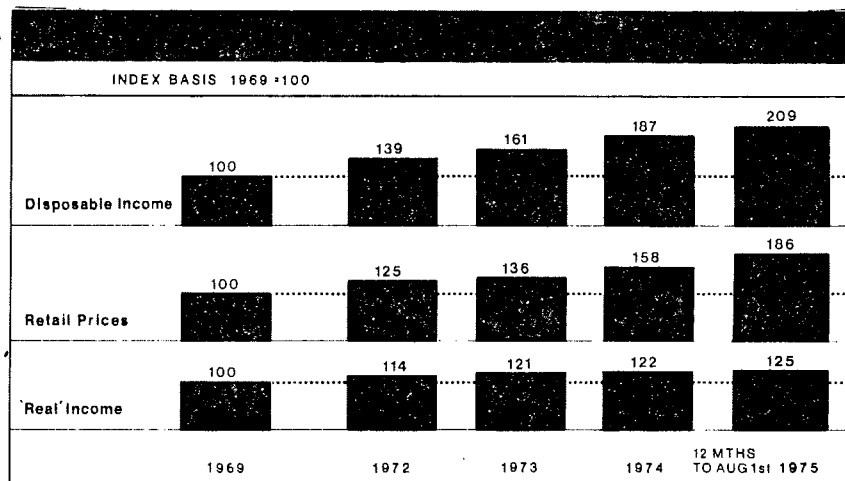
Perhaps with more generous financial grants from the E.E.C. through the Central Council for Agriculture and Horticulture, cooperatives will see greater acceptance in the future.

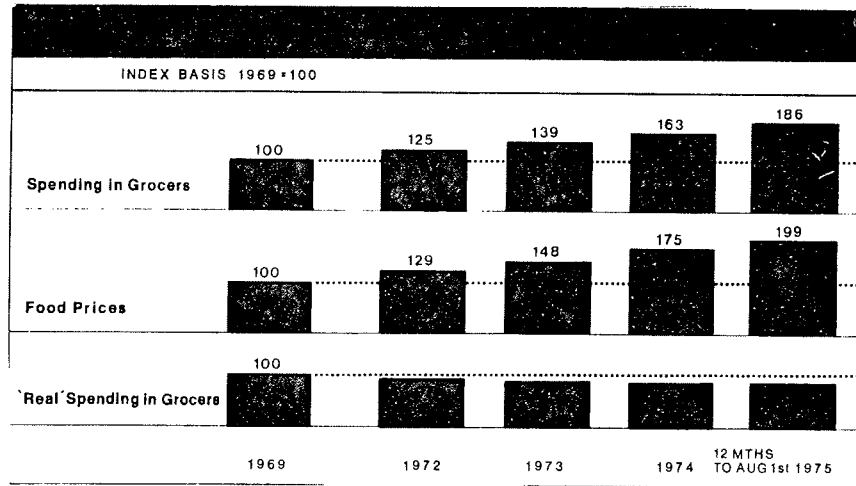
Cooperatives are well suited to meet the changing demands within food manufacturers and retailing chains. Contracts are an important aid to more orderly marketing, but they must still recognize the independence of producers and buyers, and provide material benefits. Cooperation in this sector also provides opportunities for farmers to develop skills, to identify new outlets for graded, processed and packaged product for the retail market.

PROMOTION:

In the field of promotion and advertising, Henry Ford said that he spent twice what was necessary, however, he never knew which half to discontinue. Today, however, more sophisticated techniques have been developed to monitor advertising response. Perhaps one of the best cost benefit responses was the change in the recognition of the Woolmark symbol as a result of sponsorship of Sir Francis Chichester's single-handed round-the-world sailing voyage. When he left public recognition of the symbol was 25%. Upon his return, some nine months later, it had risen to 70% at a cost to the International Wool Secretariate of £9000.

Agricultural products, particularly meat, have been left behind in the chase to capture the scarce consumer dollars. In the past, economists have said meat has a high elasticity of demand and price was the flexible factor for influencing consumption.





The two graphs show quite clearly that while real income has risen, real expenditure on food has declined. It is this decline in real expenditure on food that agriculture must attack - to recapture the lost store of consumer dollars.

Case Study of N.Z. Lamb Promotion in the U.K.

The most important factor in the promotional activity is that the product can be relied on to meet description. The objectives were clear - sell more N.Z. lamb at a better price. The programme was divided into three parts:-

- (i) Short term -
 - (a) to achieve sales at better prices
 - (b) create awareness of quality - good value for money.
- (ii) Medium term -
 - (a) to sell two-thirds of supply 20 Mill carcasses in the first half of the year.
 - (b) encourage consumers to use the product more.
- (iii) Long term - to preserve quality image for the longer term.

Campaign -

- (i) Check on consumers attitude to N.Z. and New Zealanders establish whether favourable or not.
- (ii) Establish the best means of conveying message.
- (iii) Promoting the cheaper priced cuts.

Once the campaign had been established the direct T.V. advertising in this case took the form of a N.Z. town setting, a N.Z. housewife cooking and carving the cheaper "value for money" cuts of lamb. The T.V. programme was reinforced with point of sale material on cooking, carving, selection of cuts, and also with articles in women's magazines, as well as retail butcher serviced by sales representatives.

In the current economic recession it has been found that housewives are looking for value. The value being more important than the price!

The whole programme has been monitored and evaluation of effectiveness ascertained by:-

- (i) Demand changes.
- (ii) Regularly measuring the attitude of consumers.
- (iii) Trade reaction.
- (iv) Qualitative research - regional differences in attitude and preferences.
- (v) Market researchers constant monitoring.

As well as this particular programme, other activities are being carried out - with demonstrations, writing articles on preparation for women's magazines - point of sale display material.

The most important achievement of this campaign has been to narrow the gap dramatically between frozen imported N.Z. lamb and local fresh lamb, and at the same time increase the price, all during a period of economic difficulties.

The Milk Marketing Board conducts similar large scale promotions for a large number of dairy products and on a test market with fresh milk sales, where three cities were subjected to different levels of media promotion -

with the copy book result.

Where agricultural products are promoted in the proper fashion, consumers are receptive to the message, even with food products which farmers have traditionally accepted price as the only way to clear stocks.

POLITICAL ACCESS:

When the E.E.C. established its Common Agricultural Policy, a high level of protection was offered to European farmers to encourage high levels of self-sufficiency in food products and at the same time machinery was established to maintain prices at a high level with consumers paying the direct cost.

The C.A.P. has become a restrictive and protectionist to the extent of encouraging huge surpluses of products and then subsidizing the sale in other importing countries - causing massive dislocation with world Agricultural trade.

The nine members of the E.E.C. already have a high level of self-sufficiency, with the only noticeable shortages being sheep, meats and butter. These are comfortably filled by New Zealand.

DEGREE OF SELF SUFFICIENCY E.E.C.

	UNITED KINGDOM					E.E.C. (THE NINE)
	Pre War	53/54	63/64	58/69	72/73 Forecast	73/74
Wheat & Flour	23	41	40	43	52	103
Barley	46	67	94	97	95	103
Oats	94	97	97	100	99	96
Main Crop Potatoes	-	100	100	97	93	100
Butter	9	9	9	11	22	93
Cheese	24	28	44	40	54	107
Eggs	61	80	96	100	97	100
Beef & Veal	49	66	73	77	85	100
Mutton & Lamb	36	35	43	42	43	67
Pork	78	88	97	98	93	100
Bacon & Ham	29	43	37	35	44	100
Poultry Meats	80	86	99	99	99	103
Source O.E.C.D.						

AFFECTED PRODUCTS:

When we talk of the self-sufficiency within the E.E.C. it is for food products, and our principal affected exports are butter, milk powder, beef, canned fruits, sugar, as well as sheep meats, which, while not covered by E.E.C. sheep meats policy, are restricted into Europe. Wool, on the other hand, is regarded as an industrial raw material and is allowed access without any quotas or tariff.

WHY THE NEED FOR AGRICULTURAL SELF-SUFFICIENCY IN THE E.E.C.?

There are three principal reasons for the move towards agricultural self-sufficiency in Europe. Firstly, the extreme food shortages of both world wars are still very much in the mind of the community, and while security still plays a major role in the direction of foreign policy it is understandable that the community at large is prepared to pay or subsidize agriculture in order to ensure adequate food supplies.

Also in the U.K. and Italy particularly; where balance of payment problems exist it makes good sense to politicians to save on the food import bill where production can be produced at home.

HOW IS SELF-SUFFICIENCY ACHIEVED?

Perhaps the most important factor is the clarity with which Governments spell out the expected role of agriculture within the economy, and it is from these guidelines that the realities from the stated objectives flow. In 1976 a document in the U.K. was published "Food from our own Resources" giving immense detail of how region by region can achieve increased production.

- (a) Material Resources for the U.K. and Europe. A highly desirable environment exists with wide ranging soil types, coupled with reliable seasonal patterns which enables high level inputs without running excessive risks.
- (b) Inputs. The high level of inputs starts with research, although by comparison to Australia more is spent on extension than research, based on percentage of G.N.P. Having this research information available through an extensive "whole farm approach" extension service has encouraged farmers to use more fertilizer, particularly

nitrogen; new methods of silage making; new shedding; new machinery; new crop varieties. For example, crop yields in the last 20 years have increased at 2.5-3% compound, and with the new technology available wheat yields of up to 6 tons per acre have been achieved, compares with a national average of under 2 tons.

- (c) Protection. The governments of the E.E.C. have seen fit to provide excessive levels of protection to achieve these self-efficiency objectives. It is only practical because of the immense industrial wealth of the nine E.E.C. members. The protection process is also helped by farmers themselves by providing a united voice to their respective governments, as well as the Commission. It is amazing that 2.4 million farmers in Europe representing nine countries, speaking six languages can present through one organization and one spokesman a united case to the E.E.C.

IS ACCESS TO THE E.E.C. WORTHWHILE?

The nine member countries represent a market of 260 million people, which is the largest, most sophisticated trade block in the world today. High levels of per capita income exist, ensuring a sound market base.

It is also singularly the most important factor affecting beef prices in Australia today. It also applies to other markets, as well as the E.E.C. However, with the E.E.C. opening the door when shortages occur and then closing when there are surpluses, is, and will continue to be, the trading pattern until some modifications of the C.A.P. are made. Perhaps it is reassuring to Australia that a similar restrictive policy exists between

U.K. and France, for U.K. lamb exports to France, where, if French prices fall, the shipments cease.

For Australia with large exportable surpluses of agricultural products, we cannot neglect to take the necessary action to gain access to Europe.

Perhaps the whole problem of access is best summed up by Mr. Zieblink of the Beef Policy Committee of the E.E.C. when he said:
"In Australia you have large farms - grass grows all the year - one man looks after 500 beef cows - very, very efficient producers. Therefore, when you export beef to the E.E.C. it is reasonable for us to provide quotas on imports and tariffs on price to protect our producers."

ACCESS PRIORITIES:

In the case of beef imports, the E.E.C. Planning Committee sets price which they consider will produce 95% of their requirements of 6-7 million tons, leaving way to import 3-400,000 tons. The source of the import level is decided by the International Relations Department, and preference is given to developing countries with balance of payments problems. In fact, the list of priorities is currently: the A.C.P. or African, Carribean and Pacific developing countries; Argentina; New Zealand and last Australia. We are last because our balance of payments position is strong and we are not as dependent on beef as the other countries for our National survival.

CONCLUSIONS

FINANCE.

It is abundantly clear that with the increases in the amount of capital required in agriculture at the family farm level new funding methods must be achieved.

Two lines of attack are necessary in order to achieve the desired level of effect.

Equity Funds. It is in the area of land ownership that equity participation offers real benefits to providing farmers with new funds for agriculture. I believe that farmers must structure their asset holdings to enable the infusion of funds from outside without causing disruption of their activities.

It would then be possible to create greater annual cash returns on total funds employed, and enable farm businesses to grow and provide better cash income for both the farmer and employees. It would appear that considerable scope is available for attracting equity participation in agriculture.

If equity participation or more leasehold land became available, annual rentals could fall to a level where adequate profits could be made by farmers.

Furthermore, a greater opportunity would arise for people without farming backgrounds to enter agriculture.

When it is realized that land is basically a long-term investment which requires a life-time to amortize, and that capital taxes are reducing the individual's or family's equity in land holdings,

little incentive is available to live poor and applying high percentages of after-tax income to land repayment schemes. This, I believe, is one further reason for the rural drift to the cities, where greater expectation of disposable income is being made available.

CAPITAL TAXATION:

It is with this in mind that capital tax concessions are essential to the continuance of family agriculture. However, it should be pointed out that concessions should be designed to avoid a dislocation of resources into agricultural land from other sectors, thereby exciting agricultural demand for land.

MARKETING CONCLUSIONS.

Product. We must become more consumer oriented, rather than just producing a commodity for the processor. We must establish, particularly in the meat industry, greater consultation through the pipeline to ensure the product we produce is in fact the correct one in the market place, and that the most efficient product for us to produce is promoted in the market place. Certainly, carcass classification is essential in order to achieve these objectives.

Promotion. Before an industry can promote its product, quality control is required.

When we are competing for consumer dollars, it is essential that we promote our product in order to achieve market penetration. In most consumer goods a percentage of retail sales value is credited to promotion. We must do the same. In the meat industry, we need to have adequate funds to achieve our objectives. It would appear unlikely and undesirable to expect the

Government to provide these funds, and they should be collected from producers. It is necessary that we, as producers, provide the funds in order that we can exercise the control necessary to achieve market penetration throughout the pipeline from producer to consumer.

Political Access.

(i) Our Part - It is access which more than any other consideration will in the future guide the producers of our agricultural field export industries.

Firstly, I believe that with the access difficulties in many markets, our own Government must in the near future define very clearly exactly what role within our economy it expects agriculture to play.

In the 1950's the objectives were clear: more exports for more international reserves. The same applies in New Zealand. Today the objectives are clear: agriculture is the sheet anchor to prosperity. Our biggest industry must have these guidelines spelled out.

(ii) In Europe and the E.E.C. it is most noticeable of our lack of influence in the policy-making body. They "couldn't care less" about our problems even when tensions in Brussels are running high. We need to make ourselves more vocal at international forums, and perhaps we can learn from New Zealand in this area, who certainly are not so complacent. Maybe export of uranium to Europe could provide some international influence.

(iii) Changes in Common Agricultural Policy - It is not inconceivable that internal pressure may cause changes to be made to the

C.A.P. which could allow greater import of food products from Third World countries.

- (a) The architects of the C.A.P. are the French farmers who are politically extremely strong, representing 10% of the voting population. If and when agriculture is rationalized, holdings become larger, and the farmer representation falls to perhaps that of Britain at a mere 3%, then one could expect consumer pressure for lower prices and less militant action by French farmers.

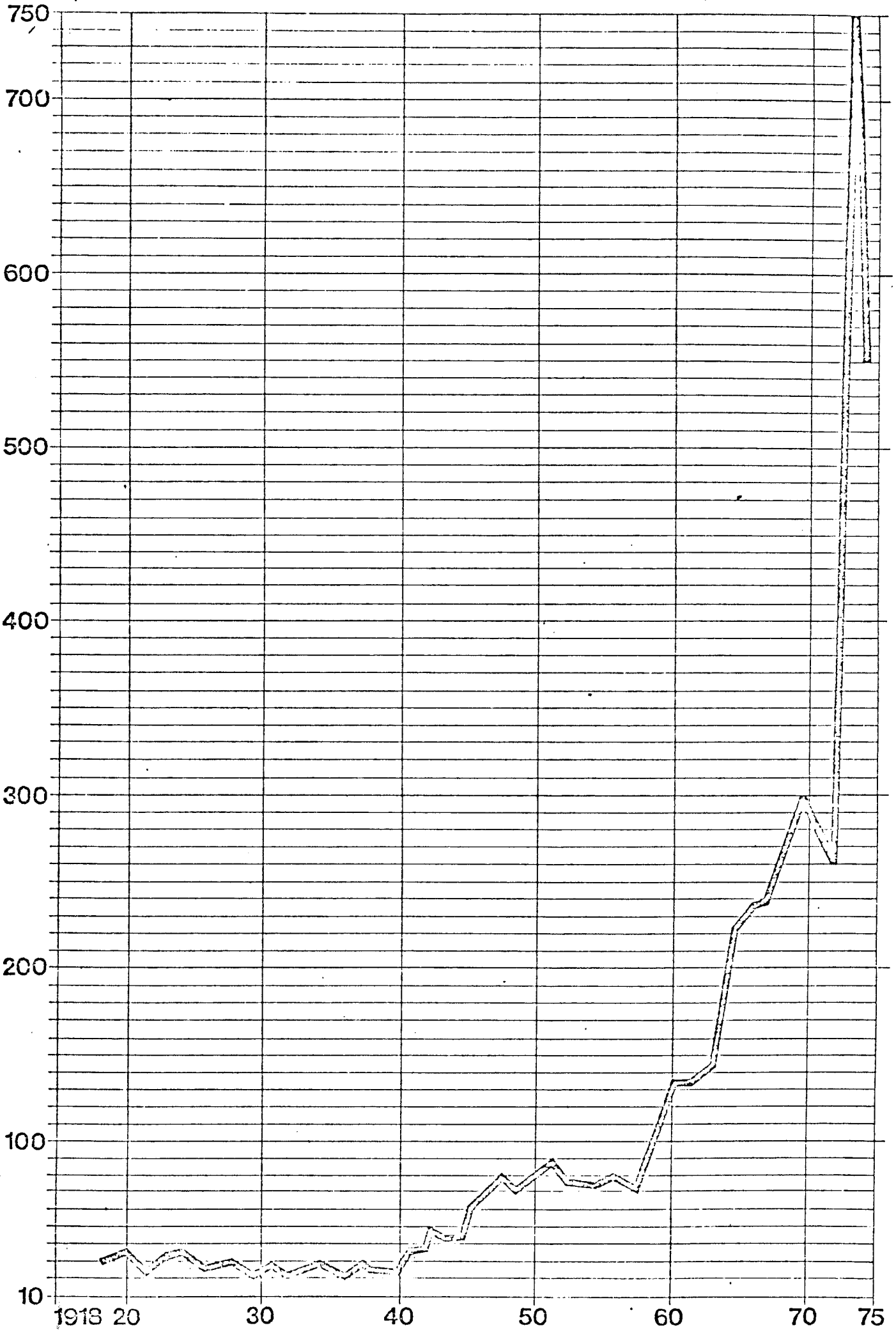
- (b) European agriculture has become a high energy consuming industry, and even current research is being undertaken to compare energy requirements for different systems of production with the view to reducing such requirements. However, with such dependence of oil by the petro-chemical industries, supply of agriculture with chemical and fertilizer inputs, considerable price increases and availability are distinct possibilities. One argument often quoted is the energy resources used to transport from Australia and New Zealand. We must also not allow this argument to go without meaningful action to resolve the question.

- (c) In the U.K., particularly where substantial increases in food prices have taken place, and as the U.K. moves from consumers paying the world price and the Government paying the difference between world price and guaranteed price by deficiency payment; to the common agricultural policy of the E.E.C., where the consumer pays the whole price. Considerable

opportunity exists to exploit this reality by aligning with consumers and informing them of the cheaper import alternative. A good example of consumer opinion was assessed by the mass slaughter of cattle in Victoria during the drought. It provided an excellent starting point for explanation of our point of view. However, nothing was done. We must have a politically independent lobby to align with consumers in order to apply pressure on the Government for some rationalization. Numerous other opportunities existed throughout my stay in the U.K. to present our point of view. While salaries in the U.K. are at such low levels currently the establishment of such a lobby would be an inexpensive exercise.

- (d) The re-unification of Germany. The political complications of a re-unification of Germany are such that considerable changes would be necessary to the E.E.C. and while within both East and West Germany public opinion for such moves are very favourable, the Soviet Union sees the E.E.C. as a strategic threat, and for unification to be acceptable to them, some dismantling of the E.E.C. would be a prerequisite. Furthermore, West Germany in fact pays considerable sums for the operation of the C.A.P. and receives less benefit than the other members.

1910-1913

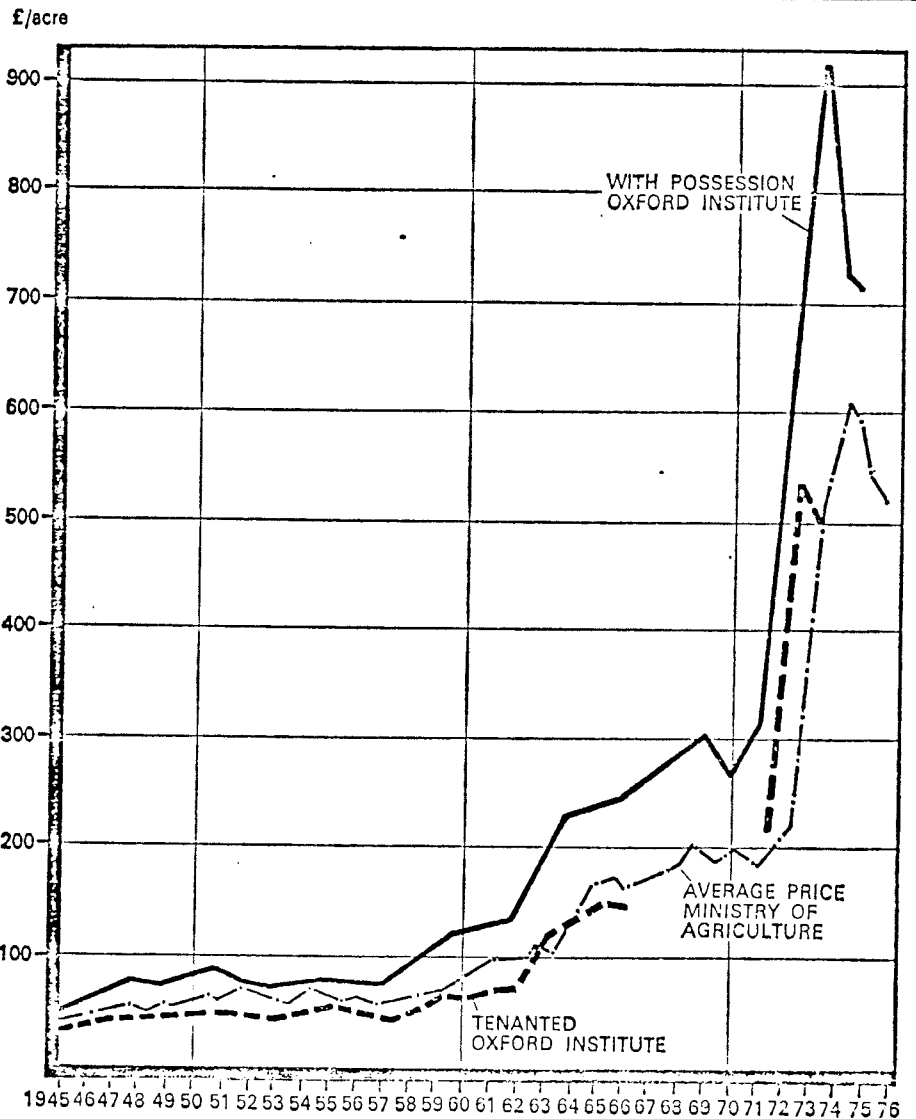


Average price of agricultural land, 1945-1975

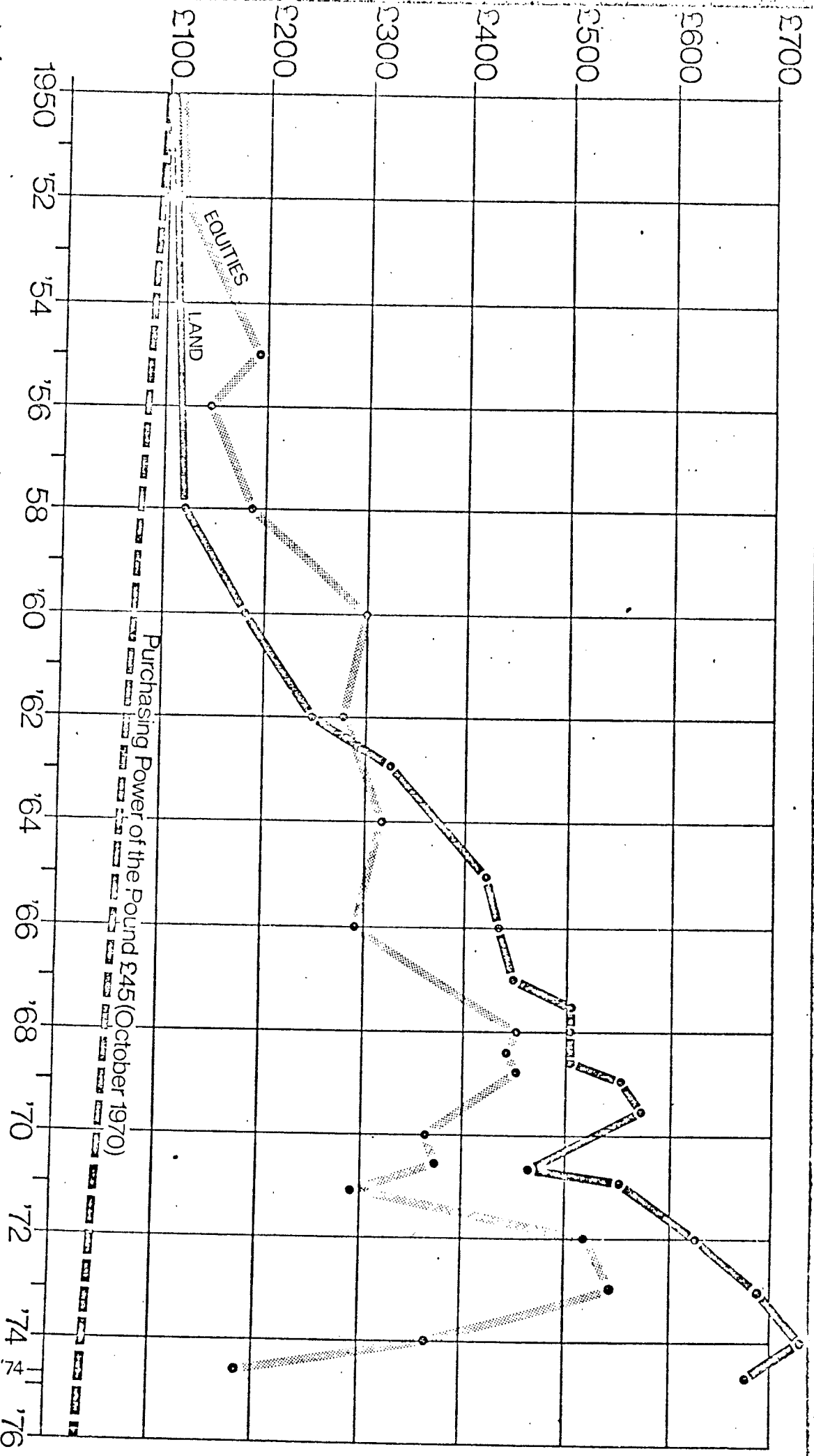
Ministry of Agriculture series. Half-yearly averages of all sales (10 acres and over)

Half year ended	Average Price £ per acre	Acreage involved	Half year ended	Average Price £ per acre	Acreage involved
31 March 1945	36	360,906	30 Sept 1960	82	338,047
30 Sept 1945	38	243,061	31 March 1961	93	395,622
31 March 1946	38	340,787	30 Sept 1961	97	353,008
30 Sept 1946	39	365,504	31 March 1962	100	360,860
31 March 1947	41	387,187	30 Sept 1962	99	295,144
30 Sept 1947	43	396,185	31 March 1963	113	365,167
31 March 1948	45	432,200	30 Sept 1963	105	274,204
30 Sept 1948	35	554,257	31 March 1964	119	414,005
31 March 1949	53	422,810	30 Sept 1964	133	339,175
30 Sept 1949	49	381,495	31 March 1965	161	393,023
31 March 1950	57	379,570	30 Sept 1965	166	290,354
30 Sept 1950	55	337,363	31 March 1966	170	275,234
31 March 1951	57	378,388	31 Oct 1966	164	238,928
30 Sept 1951	57	449,513	30 April 1967	173	261,059
31 March 1952	63	490,159	31 Oct 1967	175	247,380
30 Sept 1952	60	350,949	30 April 1968	181	270,804
31 March 1953	58	449,309	31 Oct 1968	186	223,924
30 Sept 1953	57	381,152	30 April 1969	202	317,765
31 March 1954	56	493,863	30 Sept 1969	194	209,356
30 Sept 1954	76	254,772	31 March 1970	201	215,210
31 March 1955	54	449,390	30 Sept 1970	199	209,218
30 Sept 1955	55	344,818	31 March 1971	195	249,853
31 March 1956	58	388,091	30 Sept 1971	189	237,315
30 Sept 1956	52	328,556	31 March 1972	208	275,961
31 March 1957	57	364,651	30 Sept 1972	234	224,320
30 Sept 1957	57	332,673	31 March 1973	380	227,891
31 March 1958	60	411,062	30 Sept 1973	506	228,692
30 Sept 1958	58	329,795	31 March 1974	612	221,784
31 March 1959	64	452,968	30 Sept 1974	581	161,266
30 Sept 1959	68	402,047	31 March*1975	526	137,413
31 March 1960	77	454,903			

*Ministry new series—three months ended 31 March—£484 per acre

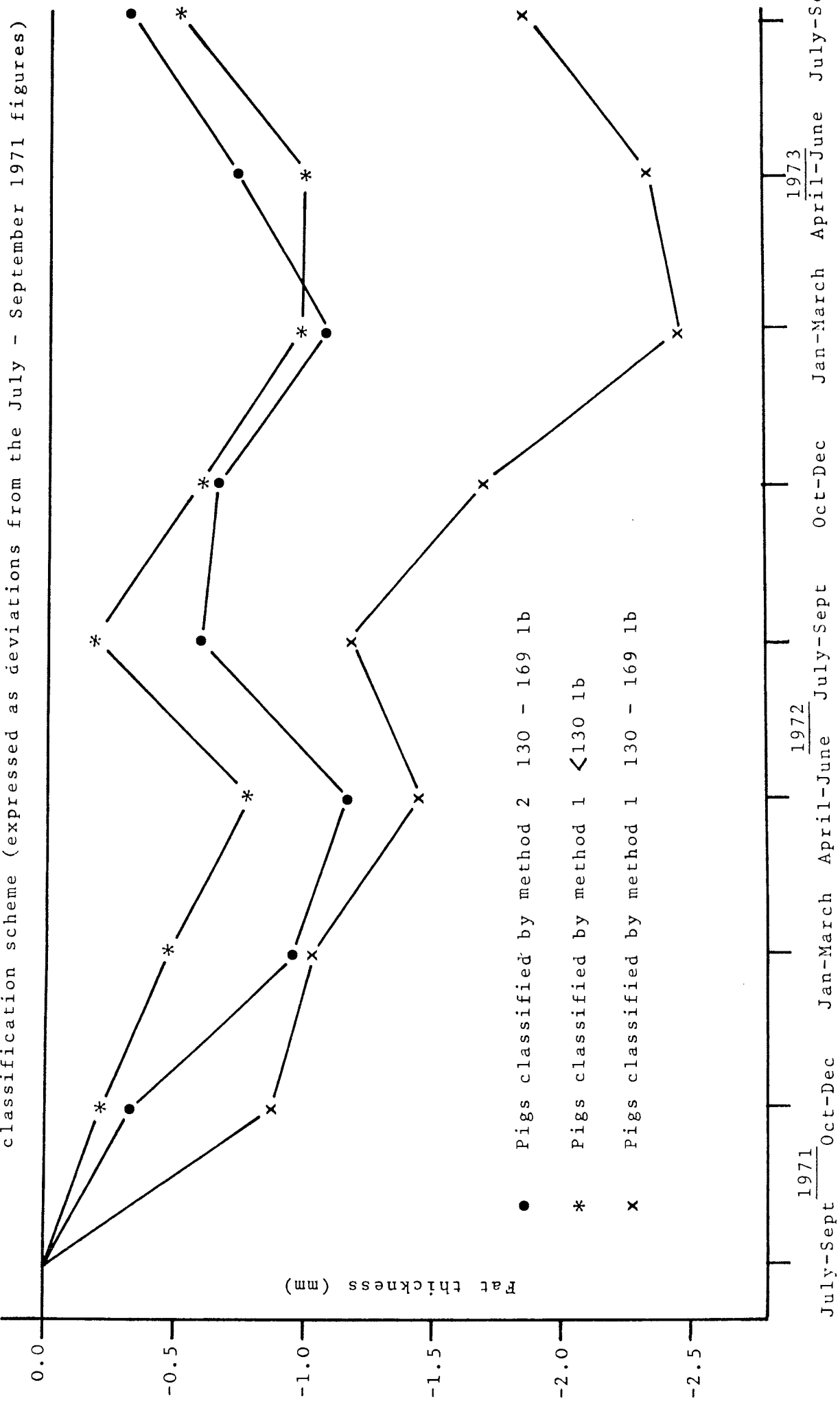


£100 invested in 1950



23-9-74

Figure 1: Change in the average fatness P_2 or $\frac{P_1 + P_3}{2}$ of classified pigs over the period of the classification scheme (expressed as deviations from the July - September 1971 figures)



- Pigs classified by method 2 130 - 169 lb
- * Pigs classified by method 1 <130 lb
- x Pigs classified by method 1 130 - 169 lb