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Development of a Strategic Approach for a Single EU Beef Market

An Evaluation of Changes in the EU Intervention System and Labelling Regulations in Relation to Irish Cattle Prices

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FOREWORD

The inherent nature of cattle farming with its long production cycle makes it difficult to control and predict beef supplies and prices. In Ireland, these inherent characteristics are further complicated by being heavily influenced by EU beef policy in relation to income support and export trading conditions. Major EU policy changes over the last twenty years have affected the export competitiveness of Irish beef. The WTO agreement in 1994 and the more recent international financial crises, especially in Russia, have severely constrained Irish beef exports to traditional and evolving markets in third countries. Various food safety issues, in particular the BSE crisis, have further accentuated the market imbalance in the EU. The decline in consumption combined with the re-nationalised EU beef market has impacted most severely on Irish beef.

Teagasc, in conjunction with University College Dublin, has initiated research to establish how Ireland could develop a more strategic approach to the evolution of a single EU beef market. A number of joint working papers have been prepared on various aspects of EU policy for beef and their implications for cattle prices, direct payments and farm income in Ireland. To facilitate public discussion on these very important topics it has been decided to publish these working papers. The authors of the working papers invite comments and observations on their analysis and conclusions.

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Introduction

The intervention system for beef in the EU has undergone major changes since its inception. These changes were introduced because of changing circumstances in the EU beef market and because of cost factors and inefficiencies associated with and arising from the intervention system itself. While justified from these perspectives it can be said that from the perspective of beef producers the system has changed from being a mechanism which aimed at and operated to achieve a producer Guide Price which in turn was defined as "……..the price which it is hoped to attain on average on the Community market for all the quantities marketed during a given marketing year" (Com 370, July 1976) to one which has abandoned all efforts at achieving a desirable producer price and which provides at best very short term stabilisation of price at its market level.

The aim of this paper is to trace the major changes which have occurred to the intervention system and the concomitant price achievement of beef in general in the EU and especially that of Irish beef. These changes together with other market and policy factors occurring on and since 1996 have combined to give a historically poor price performance for Irish beef which despite the growing importance of direct payments is still of major significance in the incomes and welfare of beef producers.

Intervention

The basic regulation, Regulation 805/68 set out the field of application of intervention. Under that regulation intervention measures could be applied when prices on the Community market ceased to remunerate production at a level close to the Guide Price.
Three types of intervention in the form of public buying-in were provided for, only two of which depended on the level of prices on the Community market, calculated on the basis of prices recorded on the representative markets of each member state.

(a) Where the Community market price for adult bovine animals was less than 98 % of the Guide Price and simultaneously the market price in a certain region was less than 93% of the Guide Price, intervention measures could be taken in the regions concerned.

(b) Where the Community market price was less than 93% (subsequently reduced to 90%) of the Guide Price, intervention was automatic throughout the Community.

(c) There was a system of "permanent" intervention, which was unrelated to the levels mentioned above. Introduced by the Council on 20 December 1972, its aim was to enable operators to offer certain high quality meat at any time, whatever the Community market price, and to receive 93% of the Guide Price.

However the obligation on intervention agencies to buy was modified for the 1976/77 marketing year to avoid encouraging production which would only be destined only for intervention. Council Regulation No. 568/76 of 15 May 1976 provided that if the price recorded on the representative markets of a member state or of a region of a member state is at or greater than 95% of the Guide Price the "permanent" intervention measures may be totally or partially suspended in the member state or region.

Support buying at that time operated for steers, bulls, heifers and for a time in the mid 1970s for cows also. Upper and lower buying-in prices were set for each of the support buying categories. The upper buying-in price was linked directly to the cattle intervention price by means of a specified coefficient and a killing-out percentage. The lower buying-in price was set at a fixed amount below the upper buying-in price. There was therefore, at that time, a direct link between the Guide Price (the price which it was felt, producers should receive), the intervention price and the buying-in price when intervention was in operation.

Buying in by the intervention agency was governed by three requirements of which the first (and the one of relevance here) was

- "to ensure effective market support" (Com 370, 1976)

Changes were introduced in September 1978 (Reg. EEC 2226/78) which were aimed at making the support system more responsive to market conditions **although by to-day's standards they continued to afford a very high level of market support for producer prices.** This regulation required that

(a) If, for any particular intervention category of beef, a country's Reference Price (i.e. general market price) remains between 100 and 102% of its upper buying-in price for a period of 3 weeks, the EEC Commission <u>may</u>, after consulting the Beef Management Committee, suspend support-buying of that category in the country concerned.

(b) If the Reference Price for a category remains above 102% of the upper buying-in price for 3 weeks, the Commission <u>may</u> suspend support-buying for that category without having to consult the Management Committee.

(c) If a country's Reference Price for a particular category, on which support buying has been suspended, remains at or below 100% of its upper buying-in price for a period of 2 weeks, then the Commission shall automatically re-introduce support buying for that category in the country concerned.

(d) As a result of a gentleman's agreement, which had to be renewed annually, suspension of support-buying under these arrangements in Ireland did not take place unless the Reference Price there was more than 85% of the EEC Guide Price.

The aim was very obviously to use intervention to try to achieve effective market price support. Specifically the aim was to achieve at least 100% of the Intervention Price, equivalent to 90% of the Guide Price, for EU beef producers generally, and at least 85% of the Guide Price, equivalent to 94% of the Intervention Price, for Irish producers. How well did this system perform ?

Performance of intervention 1973-87

Table 1. shows calculated ratios of market (reference) prices to intervention prices for beef and veal across the EU for most of the 1970s and 1980s.

Table 1. Ratio of market (reference) prices to intervention prices for beef/veal

Year *	EU average**excluding Ireland	Ireland
1973/74	1.11	1.05
1974/75	0.94	0.80
1975/76	0.98	0.82
1976/77	0.96	0.86
1977/78	0.97	0.80
1978/79	0.95	0.83
1979/80	0.94	0.81
1980/81	0.93	0.80
1981/82	0.97	0.86
1982/83	0.94	0.82
1983/84	0.88	0.80
1984/85	0.84	0.79
1985	0.84	0.77
1986	0.79	0.70
1987	0.75	0.69
Average over the period	0.92	0.82
% achievement of target of 100 % of Intervention Price	92 (i.e. 92/100)	
% achievement of target of 94% of Intervention Price		87 (i.e. 82/94)

* April-March year up to and including 1984/85; calendar year thereafter with 3 months overlap between 1984/85 and 1985.
** Simple arithmetic average across 8 EU countries up to and including 1984/85; the simple arithmetic average across 7 EU countries (excl. Luxembourg) thereafter.

For both the EU excluding Ireland and for Ireland the trend in the degree of realisation of the intervention price at producer level was generally and strongly downward. On average over the period, the degree to which a higher target was achieved for the EU excluding Ireland was greater than was the degree of achievement of the lower target for Ireland. Nevertheless, despite the poor relative performance for Ireland, the system did provide significant support for Irish producer prices over what an unregulated market would have returned.

This was demonstrated by Sheehy and O' Connell (1986) who measured the degree of market support given by the intervention system in 1985 but operating under the conditions outlined above. Three market support effects were identified. These were:

1. A general EU market effect. Under this heading it was estimated that the absence of intervention purchases in 1985 would have caused all EU beef prices to fall by 10.2 %, equivalent to a general fall in Irish prices of 9.1p/lb.

2. A further Irish intervention bonus effect. This arose because of the fact that intervention prices were higher than market prices for Irish beef. It was estimated that the absence of intervention in 1985 would have caused a price drop of 9.8 p/lb on beef sold into intervention, or a general drop of 1.35 p/lb when averaged across all Irish beef sold that year.

3. A further Irish market share effect. This arose because purchases of beef into intervention constituted a higher proportion of production than was the case for other EU states. Abolition of intervention therefore would have resulted in an increased market share for Irish beef and an estimated further reduction in Irish prices solely of 2.8% or 2.5p/lb.

The combined effects came to a reduction in Irish beef prices of 14.5% or 13p/lb implying a reduction in revenue to Irish beef producers of £147 million and equating with a 36% reduction in income from beef production.

By the late 1970s it was generally felt that the industry relied too much on intervention and needed to be more selective and more responsive to market conditions. This prompted a series of modifications including the abolition of permanent intervention and the introduction of the "stop-go" mechanism whereby intervention could be switched on or off for a particular quality if the market price exceeded the relevant buying-in price in an individual member state. (Owing to a derogation, Ireland never operated the "stop-go" mechanism). By 1983 heifers were no longer eligible for intervention and seasonalised buying (forequarters in the summer and hindquarters in the winter) was introduced. In the following March the EEC carcass classification grid was applied to intervention enabling the harmonisation of qualities and buying-in prices.

Intervention 1987- 89

In late 1985 the EEC Commission presented a report on the future of the beef regime suggesting that public intervention should be used only as a safety net, with other forms of support used more actively. This report was discussed in 1986 during which the traditional intervention system was maintained. Intervention purchases in 1986 reached a record of 560,000 tonnes but this did not stop prices declining to a level lower than heretofore in both the EU as a whole and in Ireland.

The proposed use of intervention solely as a safety net proved unacceptable. When agreement was eventually reached in December 1986 on a new public intervention system, **the link between buying-in price and an institutionally set intervention price was finally broken** marking a major milestone in the reduction in influence of the intervention system. While significant volumes were sold into intervention in succeeding years, this change significantly reduced the price supporting role of intervention buying and removed entirely the price bonus effect as described and quantified above for Irish beef. The system was implemented on a temporary basis from 6 April 1987 to 31 December 1988.

Under the new temporary system, member states chose both the category and conformation of beef they wished to intervene on, subject to price conditions being met.

The price conditions were twofold. For intervention to operate on a Community basis the EEC average deadweight cattle price for a given quality of beef, e.g. steers grade R, had to be below 91% of the EEC Intervention Price. To be eligible on a national basis, an individual member state's average deadweight price for that quality had also to be below 87% of the EEC Intervention Price. (The 'Intervention Price' referred to here was that set by the Agriculture Ministers for the marketing year and was not the price at which beef was purchased into intervention.)

Buying-in prices were calculated using weekly deadweight cattle prices in those member states where prices were below 87% of the Intervention Price. In theory, therefore, trends in the market were reflected in the buying-in prices. Two weeks' deadweight cattle prices were used to calculate the next month's buying-in prices thus linking prices at which product was bought into intervention with market prices. Because certain member states thought this would have a downward spiralling effect on buying-in prices, two additional elements were included in the calculation. Firstly a fixed amount of 8.6 ECU (i.e.2.5% of the R3 intervention price) was added to determine the carcass equivalent buying-in price for that conformation quality. Secondly, if the resultant price was less than any national price used in the calculation then the highest national price was used in its place – referred to as the 'highest price rule'.

Thus, there was acceptance, albeit for intervention purposes, **of the idea of using a particular EU state's price performance as a target price for other EU states.**

Intervention arrangements 1989-1993

On April 3rd, 1989 new intervention arrangements were put in place which operated until 1993

1. Eligibility under ceiling

Under these arrangements intervention buying-in could operate for a given grade in a member state when the following two conditions had been met for two consecutive weeks:

- the average EU market price for that grade was less than 88% of the Intervention Price
- the average market price for the same grade in that member state was less than 84% of the Intervention Price (Triggers under the previous arrangements were 91% and 87% for EU and member state respectively)

2. Eligibility over ceiling

The tender arrangements ceased if:

(a) the above conditions were not met for two weeks in a row, or
(b) a ceiling of 220,000 tonnes of beef bought into intervention was reached in the EU

However, even if the ceiling was reached, tender procedures for a given grade could be reopened if, for two weeks in a row:

- the average EU market price for that grade fell below 84% of the Intervention Price, and
- the average market price in a member state fell below 80% of the Intervention Price for the same grade

3. Safety net arrangements

There was also a safety net arrangement to prevent a downward spiral in market prices. Under this arrangement intervention could operate, if one of the following situations occurred for two weeks in a row:

(a) the market price for a given grade fell below 80% of the Intervention Price in at least 3 member states or regions of a member state which together, produce 55% or more of EU young bull or steer beef production. If this happened, intervention buying of this grade would take place in those member states or regions where the price level was below the 80% limit

(b) the average EU market price for a particular grade fell below 78% of the Intervention Price. In this case, intervention buying of this grade would take place in those member states or regions where the price level was less than 80% of the Intervention Price.

In either case, all offers at or below 80% of the Intervention Price were to be accepted. Furthermore, the quantities bought would not be counted as part of the 220,000 tonne ceiling.

Buying-in prices were fixed by the Beef Management Committee meeting on the second and fourth Friday of each month (two days after the deadline for tender submission). A maximum buying-in price was fixed for young bulls and steers of grade R3 at these meetings and only tenders below this maximum were accepted. Buying-in prices were related to market prices as in the temporary arrangements introduced in 1987.

The 1987 arrangements were subsequently amended in 1993 and these are still in existence.

Intervention 1993 –

Two intervention buying-in procedures exist and these are generally termed:

i) Normal intervention buying; and
ii) Safety-net buying

Normal intervention buying operates if, for a period of two consecutive weeks, the EU average deadweight market price for a quality or group of qualities of beef is below 84% of the intervention price. At the same time, the price for the same quality or group of qualities in a particular member state must be below 80% of the EU intervention price.

Safety-net procedures are triggered if, for a period of two consecutive weeks, the EU average deadweight market price falls below 78% of the intervention price and, at the same time, prices in a particular member state fall below 60% of the intervention price.

The system operates on a tendering basis as before. If tenders are submitted under normal intervention procedures they are only considered if they are submitted below a maximum cut-off price which equates to

a) the R3 equivalent of the average market price in a member state in the week before the week in which the tender closing date falls plus
b) a fixed ‘processors margin’ of 10 ECU.

Provided tenders are below the cut-off price they will then, under normal intervention procedures enter the second round of the adjudication. At this stage a maximum buying-in price is set by the beef management committee.

Tenders submitted under safety-net procedures will be accepted if they are submitted below a maximum cut-off price equal to the average market price in a member state plus a margin of 6 ECU per 100 kg. All offers below this price will automatically be accepted and no further stages of the adjudication procedure are entered into. The Commission may apply quantity reduction coefficients to all tonnages accepted under normal intervention procedures but not under safety net procedures. Since 1993, it may also apply price reduction coefficients to ensure that tender prices in any state are not above the cut-off price and to reduce the tender price if market prices fall during the delivery period following a tender. Maximum carcass weight and total volume limitations (for normal intervention) also apply for purchases into intervention storage.

The breaking of the link between Institutional Intervention Prices and Intervention Buying-in Prices first introduced on a temporary basis in1987 but permanently in 1989 represented a major dilution of the effectiveness of the intervention system in its role of supporting producer prices. The effects can be appreciated from the data presented in Table 2 which show the degree of realisation of the Institutional Intervention Price for a given category and quality across selected EU member states in which steer production is relatively important for years prior to the introduction of the new system and for the years subsequent to its introduction.

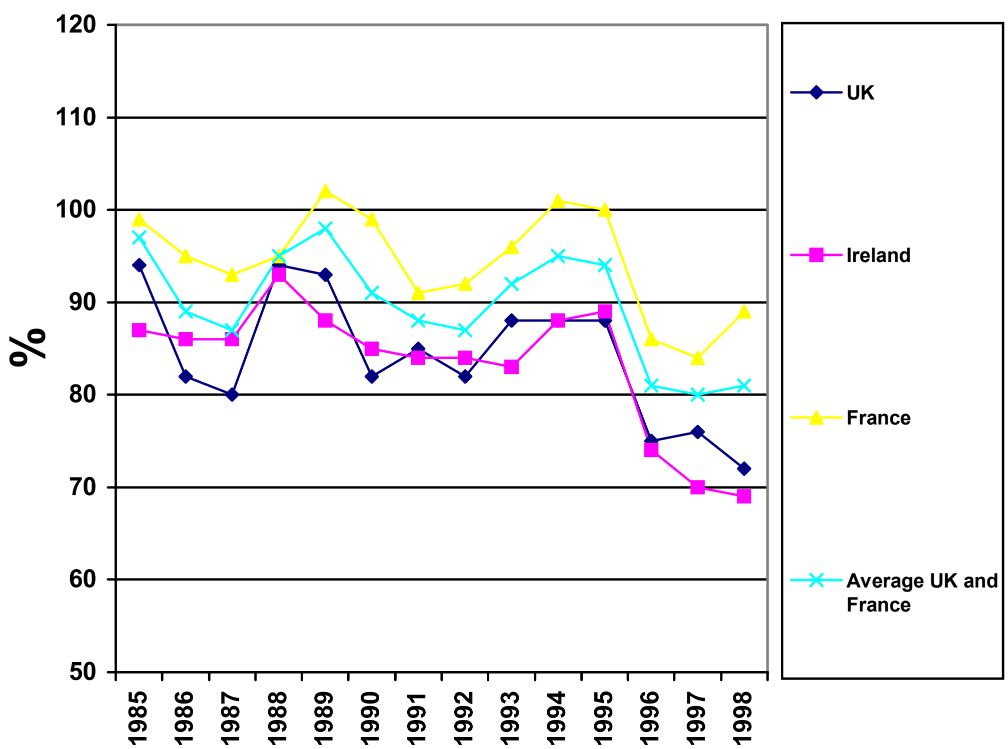
Table 2. Degree of achievement of R3 steer beef Institutional Intervention Price (%)

Year	UK	Ireland	France	UK and France Av. *
1985	94	87	99	97
1986	82	86	95	89
Average	88	87	97	93
New (temporary) system introduced April 1987 which broke link between Institutional Intervention Price and buying-in price				
1987	80	86	93	87
1988	94	93	95	95
Average	87	90	94	91
Extended version of the 1987 arrangements introduced April 1989 with reduced triggering coefficients				
1989	93	88	102	98
1990	82	85	99	91
1991	85	84	91	88
1992	82	84	92	87
1993	88	83	96	92
1994	88	88	101	95
1995	88	89	100	94
1996	75	74	86	81
1997	76	70	84	80
1998	72	69	89	81
Average 89/98	83	81	94	89

*Simple arithmetic average of UK and French prices

The yearly data in Table 2 are presented graphically in Figure 1. The trend for all countries is downward and all follow a generally similar pattern. The Irish and British levels are very closely linked but in the period 1989-1998 the Irish average price achievement was lowest of the three countries and uniquely and for the first time went below 70% in 1998. The relative Irish performance was good in 1988 and also to an extent in 1991, 1992, and again in 1994 and 1995. While this paper is concerned primarily with assessing the effectiveness of price support given by the intervention system it is interesting to speculate in passing as to the possible reasons for improvements in the relative Irish price performance. The 1988 performance may be related to the supply/demand situation in the EU market at that time which was in approximate self-sufficiency balance and also to the relatively high levels of Irish beef sold into APS in the Autumn of 1988. The outcome in the first half of the 1990s may be related to the increasing penetration of the EU market by Irish beef and to a strong live export trade.

Figure 1. Degree of achievement of R3 steer beef Institutional Intervention Price



The post BSE performance for Ireland was by far the worst of the three with a continual decline in the achievement of intervention price. This may well be a reflection of the effects of the ‘lock-out’ from both the UK and French markets which Irish beef suffered in the post BSE period with Irish beef exports to both these markets falling in 1996 and 1997 compared with 1995 (although showing some increase again in 1998). It is also a reflection of a poor live export trade. The post BSE Irish export performance may in turn be attributed, at least in part, to labelling introduced unilaterally in France.

In the period 1989-98 Irish steer R3 beef achieved only 81% of the Intervention Price. While the Guide Price was abolished in 1995 it had been the case for many years that the Institutional Intervention Price was 90% of the Guide Price. On the basis of a 90% relationship between the Intervention and Guide Price, Irish producers in the period 1989-98 received only 73% (i.e. .90 x 81) of the Guide Price i.e. the price which originally it was felt that producers should receive.

In the same period UK and French producers, on average, received 89% of the intervention price, that is, 8 percentage points more than Irish producers received for the same quality. This amounts to a difference of over Ir£220/tonne or
10p/lb dw equivalent to £75 per steer of 340kg carcass weight.

Labelling and promotions by Ireland’s EU competitors in their domestic markets

Council Regulation No. 820/97 of 21 April 1997

This regulation refers to the de-stabilisation of the EU beef market consequent on the BSE crisis of 1996 and asserts that the market can best be re-established by improving the transparency of the conditions for the production and marketing of the products concerned particularly with regard to traceability. To achieve this it states that it is essential to establish a more efficient system for the identification and registration of bovine animals at the production stage and a specific Community labelling system based on objective criteria at the marketing stage thus protecting human and animal health. The proposed labelling system is optional up to 1 January 2000 and is compulsory thereafter.

With regard to labelling at point of sale the information shown must not go outside the bounds of the following:

(a) member state, third country or holding of birth
(b) member states, third countries or holdings where all or any part of fattening took place, with partial fattening having to be specified
(c) member state, third country or slaughterhouse where slaughter took place
(d) identification number and sex of the animal

(e) method of fattening or other information relating to feeding
(f) information on slaughtering, such as the age at slaughter and the date of slaughter or the period during which the beef was matured
(g) any other information which the operator or the organisation wishes.

While specification of the member state of origin (however origin is defined) is not compulsory it is certainly permissible. Identification of member state of origin is not necessary to provide consumer protection and assurance. This can be achieved by putting in place the real systems relating to production, transport, slaughter, documentation and traceability which do provide real safeguards. The fact that these safeguards are in place can be communicated to consumers on labels at point of sale. Operational traceability, which surely is not a matter of everyday concern to consumers can be achieved by means of coding which does not identify for the consumer the member state of origin.

Whether identification of country of origin at consumer level is good or bad from Ireland's point of view depends on the degree to which Irish beef has an image/identity in the markets in which it is sold and on whether this is positive or negative.

Creation and enhancement of a positive image for Irish beef is an issue for the industry and for Bord Bia.

Apart altogether from the Irish perspective it does seem that labelling of beef by member state of origin is running counter to the idea of a unified market and is quite contrary to the spirit of the European Union. It allows and indeed facilitates the development and expression of xenophobia at consumer level. This has very negative consequences for countries which have small home markets and which have large sales in export markets and as already argued is not necessary in relation to real protection and assurance for the consumer.

Conclusions

Demand for beef declined sharply in 1996. Prices and volume of sales declined. There has been a recovery post 1996 but Ireland has not benefited in that recovery as have other countries most notably France and to a lesser extent the UK – two major markets for Ireland and also producers of steer beef. This blow to the Irish beef industry struck at a time when the price lifting effect of the intervention system had been very substantially eroded by successive alterations so that it now simply follows market prices. While the Irish price performance has always been lower than the average of that for the UK and France, that for 1996,1997 and 1998 has been at historically low levels. The Agenda 2000 CAP reform simply holds existing intervention arrangements in place until July 2002 by which time it is envisaged that prices will have been reduced by 20% and a new "safety net" system will come into operation when prices are less than Ir£1.23/kg or Ir56p/lb. There is no prospect therefore of improved support from intervention in the future.

Unless one can argue convincingly that Irish beef processors and marketers are in some way inferior at their job compared to UK and French operators, then the main reasons for both the longer term poor price performance and the historically poor performance of 1996, 1997 and 1998 must lie elsewhere. It is suggested here that structural reasons such as location, smallness of home market, the relatively huge degree of Irish self sufficiency and EU self-sufficiency levels are, inter alia, contributors to the longer term problem. It is also suggested that consumer and industry responses in our export markets post 1996 BSE in the UK and France together with EU political action in the area of labelling have contributed to the more recent performance deterioration. **The EU action may have the effect of maintaining that relative deterioration.** The impact of labelling on Irish beef exports is a topic worthy of study in its own right.

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Other Publications in this Series

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