

Production and export of pig meat, beef and dairy products - a global look.

**Speech by Dr. T. O'Dwyer, Director of Animal Products,
Commission of the European Communities, at the
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SPEAKING in Denmark, it is indeed quite logical when discussing matters in relation to agriculture to focus in particular on animal products. The three products which you mention in your programme, pigmeat, beef and dairy products, together with eggs and poultry, account for over 50% of total agricultural production in the European Community. While appreciating that you would like a "global look" at those products, I will be dwelling in particular on the scene within the European Community.

THE sector of animal products quite clearly is influenced by the overall situation in agriculture and indeed the state of the economy generally : especially on the demand side. Animal products per unit of protein or energy are expensive when compared with vegetable products. Beef consumption is more responsive to income changes than are other animal products. However, with so many people unemployed and consequently on social welfare payments, enlarged market possibilities are limited. The existence and application of the Common Agricultural Policy, while having similar objectives in all sectors, has varying results in shielding producer revenues from movements in incomes and consumer purchasing power. In any event, over recent years consumption has not been growing significantly either within or outside the Community. The impact of the economic recession has been earlier and more noticeable in external purchases. Food importing countries in the less developed parts of the world usually do their purchasing through Government agencies. The lack of funds to support purchases has meant decline in world market prices but also in volume terms. World food needs

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clearly exist on an expanding basis, but perhaps more importantly there is difficulty in transforming need into economic demand. Hence we have the apparent inconsistency of the World Food Conference speaking of a risk of serious food shortages on a global basis at the same time as others are equally concerned, again on a global basis, with the existence of surplus products and their consequences on international trade.

THESE remarks are not the central elements in my talk today, but it is important to recognise that the dilemma as outlined above exists and that it is an important part of the background to which we discuss animal product markets.

IN deference to our hosts here in Denmark, it is reasonable in focusing on animal products to start with pigmeat.

THE PIGMEAT MARKET

PIGMEAT represents around 12% of the value of the total agricultural production in the Community of Ten, compared to 15% for beef and veal, 8% for eggs and poultry and 19% for the milk sector. The relative importance of pigmeat production varies significantly from country to country being at its highest in Denmark at 31% of the total agricultural production and at its lowest in Greece at only 5%.

SLAUGHTERING around 120 million pigs per year, i.e. 10 million tons, the EEC is the second largest pig producer in the world, only surpassed by the People's Republic of China. The total number of pigs on EEC farms at the last census (December 1982) amounted to around 79 million head. The most important pig producing country within the Community is Germany with a market share of about 30%, followed by France (18%), the Netherlands (14%), Italy and Denmark (10% each) and the United Kingdom (9%). The remainder, the other 4 Member States, only account for 9% of the total Community pigmeat market.

THE volume of 10 million tons of production situates the pigmeat sector as the most important meat sector within the Community, compared to 7 million tons of beef, 4 million tons of poultrymeat and only 800,000 tons of sheepmeat.

PIG-RAISING is carried out on almost half the farms in the Community, that is in 2.1 million holdings. The structures of pig production still differ significantly from one country to another, not only in the breakdown between breeders, breeder-fatteners and fatteners, but also in the scale of production units; in 1979, the average number of pigs per farm in the Community was 35, the figures ranging from an extreme of 220 in the United Kingdom to less than 10 in Italy. Italy, however, has a relatively large share in the industrial type of production with roughly 50% of all pigs kept in herds of 400 or more pigs.

THE period since 1962 has been characterized by a marked change in the structure of European pig farming, as in farming as a whole, towards fewer and bigger and more specialized units. The location of pig production has changed considerably; specialized units are concentrated mainly in the regions surrounding the North Sea, from Denmark over north-west Germany, the Netherlands, western Belgium to northern France and to Brittany as well as in the south-east of England. This evolution is contrary to beef production which is more or less limited to the agricultural surface (and mainly grassland) so that beef production is proportional to the size of the Member States.

UNTIL recent years Community pigmeat production and consumption were characterized by an important rate of increase of around 2.8% as a yearly average.

HOWEVER, the steady growth of the pig market shows some signs of interruption which are linked to the effects of the general economic problems in Europe. High rates of unemployment and the decreasing levels of purchasing power in real terms of the major part of the European population have their negative effects on demand for luxury goods in general, as well as for luxury food in particular. This phenomenon, which was first observed in the beef sector, seems to have extended since 1981 to other meats, including pigmeat and even poultry-meat. This tendency seems to be strengthened in 1983 and it is more and more likely that the overall mean consumption in the EEC will decrease about 1% this year.

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ON THE long-term price development, the EEC pigmeat market price has been very stable with an average yearly increase of 1.7% since 1974. That is much less than the general price inflation in the EEC, which during the same period has exceeded 11% per annum. Thus, pigmeat has become cheaper all the time in real terms of purchasing power and has, at the same time, contributed considerably to price stability (as with several foods compared to non-agricultural products).

UNDER these circumstances, it is not surprising to see that pigmeat consumption has steadily risen and has more or less followed pigmeat production, i.e. an average increase of about 2.8% per annum since 1973. Per capita consumption of pigmeat is now about 38 kg per annum, i.e. 42% of the total meat consumption. Consumption of pigmeat was 25 kg/capita in 1962 when it accounted for 39% of total meat.

External trade

THE stabilization of the market is achieved mainly by regulating permanently the trade by the levy and refund system. The latter shall make up for the difference of the prices of feed grain on the world market and in the Community and the relevant amounts are quarterly revised following the evolution of world markets.

IN TRADE between the EEC and non-EEC countries, volume has remained rather constant over the years, imports being around 250,000 tons with a slightly decreasing trend and exports about 300,000 tons with some more marked variations according to fluctuations in trade policy, market access in non-member countries and special food aid schemes as for Malta and Poland.

IN general, the Community imports raw material in the form of live pigs and fresh meat, pig offal and lard and it exports mainly processed products and, particularly since some years, high value fresh meat.

COMPARED to a production of 10 million tons in the whole of the EEC, a trade with non-EEC countries of around 300,000 tons can be characterized as rather unimportant. The degree of self-sufficiency in pigmeat has always been very close to 100%.

IT should be borne in mind that the relatively unimportant trade with non-member countries by volume has nevertheless a considerable impact on price formation within the Community.

Internal trade

CONTRARY to the stability in the external trade of the EEC, internal trade in pigmeat between the Member States has steadily grown, not only by volume but even in relation to the growth of pigmeat production. At an annual volume of 2.2 million tons in the beginning of the 1980s, internal trade has passed to 22% of the production volume.

IN 1962 that trade was only 2.2% of production in the Community of 6; so it increased tenfold disregarding the changes in the composition of the Community since 1973.

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IN THE same time, a specialization has taken place since an increasing part of the trade takes place in the form of more individual cuts or processed products, thus permitting better use of efficient marketing methods (including transport cost savings) and at the same time to offer the choice of typical regional meat products to the entirety of the European population.

TAKING into consideration its importance to the total agricultural economy, the Community pigmeat regime has been inexpensive. For 1983 the pigmeat budget amounts to 180 million ECU out of a total amount of almost 14 billion ECU for the whole FEOGA guarantee section. This means that for 12% of the final agricultural production only 1.3% of the FEOGA budget is spent on pigmeat.

IMPORTANT elements in the pigmeat regime would appear to be :

- (a) the non-mandatory rules of intervention measures which do not make buying-in compulsory by some automatic mechanism.
- (b) the small quantities traded with non-EEC countries, which reduces the influence of external less controllable factors.
- (c) the relatively high degree of integration and transparency in the common pigmeat market.

IN 1983, pigmeat production will increase further by 1.7% within the Community and by 1.9% within OECD countries (of which the Community accounts for 50% in pigmeat). This increase, together with a weak demand, will lead to a further depressed world market for pigmeat

and it is not known to what extent the Eastern European countries, which used to be net exporters in the 70s, can and will absorb part of the surplus available in Western Europe this year. This, in turn, will have an impact on price evolution this year and, consequently, on the offer in pigmeat next year. Pig production in Asia, which accounts for 40% of the total world production, will continue to have no direct impact on the evolution of the world market because of its low degree of market integration.

THE BEEF MARKET

AS already mentioned, the market for beef in the Community is faced with a number of difficulties arising in part from the overall economic recession and in particular from the number of people unemployed. The market is not helped either by a lack of monetary stability and cohesion. Furthermore, we could have a much more effective Community market through the application of a single Community classification to which the Commission attaches great importance. The conclusion of the Agricultural Council that intervention buying-in prices would be fixed on the basis of such a grid from 1 January 1984 gives some reason for hope.

THE market for beef is traditionally characterised by cyclical fluctuations in production and in price. The fluctuations in production can often be accentuated through significant variations in concentrate feed prices and the price of young cattle.

THE peak of production in the Community was reached in 1980 with an output of almost 7.2 million tonnes. Since then, we have seen two years of successive reductions of the order of 4% annually bringing output to about 6.6 million tonnes. On the basis of present estimates and the evaluation of the herd output is now likely to increase in '83 and again in '84.

ON A longer term basis, overall meat production in the Community increased by about a half million tons per year from '75 to '81, whereas in '82 we had a reduction of approximately 200,000 tonnes.

THE increase in production of meat over the years has been almost matched by increases in consumption and as a result the Community finds itself just about self-sufficient in meat. In fact, the level of production and consumption around which equilibrium exists is about 24 m. tonnes which corresponds to an annual/capita consumption of 89 kilos.

THE imports, for the most part under special arrangements, are compensated by exports of about similar quantities made possible primarily through opening up of new markets in the Middle East and North Africa. Import commitments amount to some 450,000 tonnes/year, with actual imports of 400,000 tonnes, while exports amount to 500 to 550,000 tonnes per year. Hence, the Community, always a major importer of beef now ranks third, after Australia and the Argentine, as a beef exporter.

OTHER than the policy matters already mentioned, it is the Commission's intention to pursue its work in search of a single premium to replace the variable premium in the U.K., the calf premium in Italy, Greece and Ireland and the suckler cow premium. Such a premium would provide income support on an equitable basis, without damaging consumption prospects.

ON THE world scene, beef output in most countries has been reduced in recent years; but because of decline in demand international prices have also decreased. Australian output will be down significantly in '83 and '84 as the herd is being rebuilt after the long drought. U.S. output will be no higher in '84 than in '83. Taking all OECD countries together, beef output in '84 is likely to be just about its '82 level.

MILK AND DAIRY PRODUCTS

THE present situation in the EEC milk sector is characterised by increased productivity, increased production, almost stagnant consumption and, hence, a structural surplus. It is also influenced by international cost development and the international economic recession, resulting in slow economic growth and a high degree of unemployment. This is further reflected in a stagnating world market offtake for dairy products, thus contributing to increased international stocks of dairy products.

Production

COMMUNITY milk production and deliveries to dairies continue to increase in spite of dairy cow numbers remaining around 25 million head. This is mainly due to the increased yield per dairy cow. From 1974 to 1981 the average EEC yield per dairy cow increased annually by 2%, covering a range from 1% in Belgium, 2.1% in Germany and France and 2.2% in the U.K. A contributory factor has been the rapid transformation of the structure of dairy herds. For example, the increase of dairy cow numbers in herds of more than 40 cows over the period 1973-81 has been 3.3 million. Thus, more than 13% of EEC dairy cow numbers was replaced in this period by higher yielding cows under better economic management. It is therefore incorrect to say that EEC milk policy has contributed to preserving an uneconomic production structure.

WHEREAS EEC milk deliveries in 1981 only increased by 0.4%, several factors contributed in 1982 to an increase of about 3.5% (a moderate build-up in cow numbers, favourable climatic conditions, a record-high price relationship between milk/feed, a certain change in the seasonal calving pattern). Some of these factors will also remain valid in 1983, thus in the short term showing a yield development above the trend.

Internal consumption

THE production of individual dairy products has reflected commercial development in the individual markets. Overall consumption of liquid milk and fresh milk products has continued to increase, but at a lower

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rate due to increased unemployment and other economic/social difficulties. Within the fresh milk sector the general tendency to consume more semi-skimmed milk and less whole milk has continued, as has the consumption of UHT milk which now accounts for about 22% of the whole and semi-skimmed milk market in the EEC.

EEC CHEESE consumption is still increasing but only at a rate of 1 - 2% annually. Again we see a result of the economic recession, having more than halved the speed of increase in two or three years. But the Community is still among the leading cheese consumers in the world with a consumption of nearly 13 kg per capita. Contributing to this result is the production of a wide range of cheese types and qualities and the imports of about 100,000 tons of cheese from third countries.

THE internal EEC markets for butter and skimmed milk powder are influenced by the fact that these products are public intervention products, reflecting the surplus situation and the utilisation of special sales measures. For example, for the third consecutive year the EEC has succeeded in maintaining total butter consumption almost stable, but in 1982 by applying more expensive special measures. The average EEC butter consumption of 6.5 kg/capita is not that bad either in the international comparison.

FOR skimmed milk powder, strong and expensive efforts are being made to increase the internal offtake, especially in the pigs and poultry sector, where we are heading for several hundred thousand tonnes. For calf feed we are already at the level of 1.3 million tons. In this context, I would like to underline that many of these special measures

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applied on the internal market for butter and skimmed milk powder may seem very expensive in the short term, and indeed by comparison with the costs of exporting the surplus. However, this international audience will probably appreciate that such policy would not be in line with the international commitments of the Community.

Exports

AFTER the collapse of the world market for dairy products (notably SMP and butter) in 1974-75 a certain increase took place from 1977 to 1980. This increase in the world market offtake was especially due to the

- a) increasing butterfat deficit in the USSR and East Europe
- b) increasing demand from strong (dollar) oil-producing countries, and
- c) increasing demand from industrializing developing countries.

For most products the EEC succeeded throughout this period in enlarging the market and, at the same time, increasing export prices. After the expanding process ending in 1980 the EEC held about 60% of the butter and SMP market, 43% of the cheese market and respectively 73% and 70% of the WMP market and the condensed milk market. This did not imply that other third countries globally reduced their exports. For condensed milk for example, they even increased their market share. This development demonstrates why the EEC is very conscious of its role in influencing the world market and the necessity of co-ordinat

through the International Dairy Arrangements in GATT. Thus, up to the beginning of 1982 it was possible to maintain the positive development of international dairy prices. However, influenced by surplus production in many countries and by international currency fluctuations we are now facing a less stable international market. Let me give some indication how this has affected EEC exports. From 1980 to 1981 EEC exports of butter and SMP fell by 100,000 tons and 80,000 tons respectively. In 1982 EEC butter exports fell by a further 100,000 tons and SMP exports by nearly 200,000 tons. As this development is mainly due to other countries bringing their surpluses to the market, partly as giveaways, the Community follows this situation very attentively. Having seen our export levels for butter and SMP reduced to about 400,000 and 350,000 tons respectively (food aid included), we have, however, succeeded in slightly increasing our exports of cheese and condensed milk (by 10,000 tons and 35,000 tons respectively) to levels about 380,000 tons (cheese) and 600,000 tons (condensed milk). However, EEC whole milk powder exports in 1982 fell by 15% to 460,000 tons.

Imports

THE Community maintains its position as the world's second biggest cheese importer (100,000 tons) next to the USA and also the second biggest butter importer (next to the USSR). Imports of casein have stabilised at around 10,000 tons annually.

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THE developments which I have described above indicate that the EEC is facing a stock problem. At 1 May 1983 the total butter intervention stock (public and private) stood at 379,000 tons as against 48,000 tons a year ago. On the same date SMP stocks had risen to 718,000 tons as against 284,000 tons last year. In general, these stock levels correspond to 2.8 months consumption for butter and 5.5 months internal utilisation for skimmed milk powder. When we further consider the special efforts being developed in the pigs and poultry sector, these stock levels are not yet dramatic. But the problem is there and underlines the necessity of developing a policy which can not only effect production but also increase consumption. To this end, the guarantee threshold policy which was implemented in the EEC milk sector for the first time this year (1983/84) seems to be highly appropriate, as it will reduce the profitability of over-production and transfer the impact of continued surplus into price reductions for the intervention products.

ON A more global basis, I have already indicated the developments in the international market. This is associated with a general growth of international milk production and an accumulation of stocks. For a number of years, world milk supplies increased at less than 1%. More recently annual increases are of the order of 2%. At the end of '82, international stocks of butter and SMP amounted to some 630,000 and 1.4 million tonnes respectively. The growth in stocks last year far outstripped the equivalent of the increase in deliveries. World market offtake for dairy products probably decreased by 5% in 1982.

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TO THIS background, the Commission, while maintaining its presence on and interest in the world market is relying increasingly on internal Community measures of stock disposal. This is a very constructive attitude towards the world market and one which we continue to recommend to others in somewhat similar circumstances.

THIS then is a brief outline of the market scene in pigmeat, beef and dairy products. Problems abound in the short term and market management in these circumstances demands careful and constructive thought. Policy formulation and implementation on the basis of clear objectives remain central to the well-being of the animal products sector. The present economic circumstances are vital in determining market possibilities. To go back to my first point, the need for food is expanding, translation of the need into economic demand will not happen over-night.

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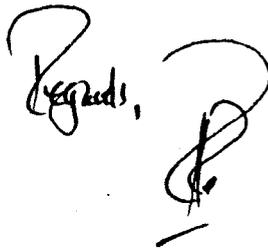
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Subject: Production and Export of pigmeat, beef and
dairy products - " A global Look "

For your information, please find herewith a copy of a speech
which will be made by Dr. T. O'Dwyer, Director of Animal Products,
at the 27th IFAJ Congress in Denmark on 27 June 1983. This might
be useful for meeting certain CAP arguments in future.

Regards,


Robert R. Cox

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cc: Mr. Freisberg