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The Milk Market Situation in the EEC

Speech by Mr. Dalsager, Commissioner for Agriculture,

to the Dairy Trade Federation's Conference,

London, 2 March 1983

1. I am pleased to accept the invitation to say a few words to this Conference on the current milk situation in the European Community and the problems ahead of us.

As this is your 50 year Jubilee I should have brought you - as a present - a very nice and tidy market situation, in which you could have had a nice and growing income, without any important input of efforts or risks.

However, having come to know you and your marketing efficiency, I would not wish to deprive you of a confrontation with the real and maybe not-so-bright picture of the market situation. I do it with a very clear conscience, as it is a challenge to this Federation on the occasion of its 50th anniversary to know that it has an important task to fulfil also in the future.

2. Let us start with the stark facts. The milk product market in the European Community is in clear surplus. Production is rising too fast. Consumption has been rising and there are some bright features but evidently consumption is not going up as fast as the volume of milk output. We are to some extent the prisoners of our own success: although our support prices for

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milk products are lower than in most developed countries such as our European neighbours or the United States, our milk producers have made massive improvements in efficiency and production.

I have learned from your comments on the Commission's price proposals for 1983/84 that you find our production forecasts too low and our consumption forecasts too high. In other words, we are too optimistic, in your view.

3. Let us not compete about who is going to paint the darkest picture when production is growing, every day, faster than consumption. Let us take a realistic look at the statistics that Member States have provided us with over the last 10 years or so. In 1973 the EEC (9) countries had milk deliveries amounting to 81 million tons. In 1981 they were 97 million tons. Thus the average annual increase was 2%. Similarly, the total consumption in milk equivalent increased from 82 million tons in 1973 to 87 million tons in 1981, or an annual average of 0,8%. Unfortunately <u>the trend</u> of total consumption is only 0,5% per year.

4. The Commission has repeatedly made clear this problem and made proposals to the Council to correct it, while at the same time making the

maximum efforts to restrain the cost of disposal of our milk products. Thus we have had the apparently contradictory situation of, on the one hand, a huge saving in the budget cost of our guarantee for milk and milk products, which fell from 4.752 million ECU in 1980 to 3.343 million ECU in 1981 and 3.314 million ECU in 1982, a reduction in expenditure of about £ 900 million in 3 years; and, on the other hand, continuing pressure from the Commission to achieve a real restraint in the volume of milk production.

5. In the last price package the Council took major decisions on the reform of the operation of the common agricultural policy by setting guarantee thresholds for cereals and milk, thus bringing to an end in these sectors the open-ended guarantees which have prevailed since the introduction of the common agricultural policy. I am surprised that many commentators in the United Kingdom have not appreciated the importance of this development, which could not of course have any effect in the first year but will certainly do so from now on. We had the same experience in the sugar sector, when the introduction of the new regime could not affect the results in the first year but, as soon as it was fully applied, reduced the acreage by 9%

and production by 7-8% in a single year.

6. In the milk sector the Council has already decided that it will take measures to offset the additional costs due to the excess of deliveries above the guarantee threshold. The Commission has followed through its declaration of last year in proposing to abate the intervention prices by 2,2%. We now know that the increase in milk deliveries in the Community in 1982 is of the order of 3,5%. We are therefore now proposing that the increase of 5,5% in intervention prices should be abated by 3%, not by 2,2% as originally proposed. Thus we are proposing a virtual standstill in butter and other milk product prices in the Community. The producers must now plan on the basis of lower real prices to offset the big increases in productivity (yields, herd sizes, feeding, etc.). I think that, this signal once given and the reductions once introduced by the Council, the first steps to an effective restraint on production will have been taken and will be increasingly in evidence in later years.

7. We have also to think about the development of consumption. This is a clear reflection of the economic recession and the level of unemployment on the one hand, and the widening of the gap

between the prices of dairy products and competing products on the other. For the time being, only cheese and cream consumption continue to increase in the Economic Community, hardly exceeding the population increase. This is where we hope that the impact of the guarantee threshold and the consequent fall in prices in real terms will benefit the consumers and increase the competitivity of dairy products relative to vegetable fats and proteins. Our two intervention "surplus" products, butter and skimmed milk powder, are in the centre of this competition.

8. Butter production in the European Community increased by 7,5% and skimmed milk powder production by more than 8% in 1982, compared with 1981. For butter, this increase corresponded to the increased milk production (in milk-fat), after casein and cheese production had increased by 20% and 2% respectively. For the third consecutive year, we succeeded in maintaining butter consumption almost stable, but this time by applying more special measures, notably Christmas butter.

For skimmed milk powder, the offtake within the Community increased by 74.000 tons or 4,7%, primarily because of the re-introduction of the pigs and poultry scheme. Nevertheless, both

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butter and skimmed milk stocks have risen, reflecting a decrease in exports of butter of 125.000 tons and of skimmed milk powder of 150.000 tons.

9. The third important element of our surplus situation is that the world market offtake has been slowing down and world market supplies have doubled their rate of increase from below 1% annually to well above 2%. As a result, the international stocks have increased faster than production, and amounted at the beginning of January 1983 to about 600.000 tons of butter and 1,4 million tons of skimmed milk powder.

10. These market developments will mean increased expenditure on the Community milk budget, because internal disposal measures are much more expensive than export restitutions. But the total guarantee expenditure for milk in 1983 is expected to remain well below the 1980 level and to represent less than 30% of guarantee expenditure. On the world market, we shall seek to maintain our market share but we shall also observe our international commitments and will ensure that other countries do the same.

11. I said at the beginning that I would give you a

realistic picture. It also represents a challenge, to the milk producers, to the dairy trade, to the Commission and, finally, to the Council. The proposals of theCommission contain the necessary elements for a medium-term solution to our problems, based on a prudent price policy; the operation for the first time this year of the restraints linked to the level of milk deliveries; maintenance of the 2% coresponsibility level, and continuation of the 120 MECU support to small milk producers. This implies also a continuation of several, important measures to increase sales, within and outside the European Community. A reinforcement of the national school milk schemes would rank very high on your shopping list, as well as on mine. In fact, we find challenges all around the horizon. An example is the unfortunate development of liquid milk consumption in the United Kingdom; or the low cheese consumption level in the United Kingdom and Ireland; or the low butter consumption level in the Netherlands.

12. The challenge is not only a guarantee of work to be done but also for new avenues to be tried out. Choosing between the many medicines which have been recommended over the years, I feel confident that the medicine we finally give the patient will cure and not kill him.