

# GREEN EUROPE

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY



## **CHANGES TO THE EEC MARKET ORGANIZATION FOR MILK AND MILK PRODUCTS**



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TO THE EEC MARKET  
ORGANIZATION  
FOR MILK AND  
MILK PRODUCTS**

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## CHANGES TO THE EEC MARKET ORGANIZATION

### FOR MILK AND MILK PRODUCTS

#### I. INTRODUCTION

The problem of the milk surpluses again became acute in 1986 and a great deal of discussion was devoted to it over several months. A political agreement was reached in the Council at its December meeting with a view to remedial action. On 3 and 4 March 1987 the decisions taken were given legal effect in instruments published in the Official Journal of the European Communities on 20 March.

The new arrangements are rigorous and this may well have come as a surprise to those members of the public and dairy farmers in particular who were not fully aware of the situation and the seriousness of the crisis. The purpose of this paper is to explain how the arrangements are working.

For a better understanding of the context and a clearer assessment at the same time of what is at stake in the decisions that have been taken, it is useful to consider the historical background, especially the circumstances under which the rules for the EEC market organization on milk and milk products were worked out in 1968. This will bring out clearly the reasons for granting dairy farmers the open-ended disposal guarantees which are now so heavily criticized.

A review of the 1968-1985 period will also offer a reminder of the all-too-frequent crises in this farm sector - the title of the November 1979 issue of Green Europe - "Milk - problem child of European agriculture" - is a clear enough indication of the difficulties that had arisen.

At the same time, a review of this kind must include the increasingly serious warnings the Commission gave and the various measures taken by the Community authorities in attempts to adjust the persistent disequilibrium.

A separate section is assigned to the major decisions taken in 1984, which brought milk policy over on to a completely new tack and which most observers thought would be a solution, at last, to a problem the dairy farmers had had to contend with for 16 years.

Analysis of the main provisions and of the operation of the quota system will show the scale of the effort made but also the need to correct some weaknesses as a result of which, with demand flagging, the intervention agencies had to buy in record quantities of butter and skimmed-milk powder in 1986. It was because of this unexpected and dangerous development that the Commission laid before the Council in September 1986 a set of emergency measures, with this warning: "a further build-up of stocks at the rate of recent months would directly jeopardize the existence of the dairy policy and, therefore, of the common agricultural policy itself".



## II. LEGISLATIVE BACKGROUND

### 1. Why an open-ended disposal guarantee?

The purpose of the EEC market organization for milk and milk products, set up between 1964 and 1968, was, as for the other market organizations set up at the same time, to ensure that the objectives laid down in Article 39 of the Treaty of Rome were achieved. The machinery planned was designed to make it possible to achieve prices guaranteeing equitable living standards for farmers and farmworkers but also to stabilize the markets and secure reliable supplies. This last point may now seem unnecessary, but just after a period of shortages which ran on into the Fifties, the politicians had by no means forgotten the empty shelves in the bakers' shops, the ration books needed to share out the short supplies, and the queues of housewives outside the foodshops. A priority need for the peoples of a new Europe just rising from the old was that it should enjoy independence as regards food supplies.

Price support was also justified by the importance of income from milk for two thirds of the Community's holdings, almost all family farms. At the time, more than 75% of farmers owned fewer than ten cows. For all these micro-farmers, the return on milk was nothing less than their livelihood. This meant that Community decisions regarding milk were of major political importance. All the more because, before they joined, the Member States had already - though in different ways - operated national schemes supporting milk prices.

Nor must the political and economic context of the Sixties be forgotten. A number of favourable factors influenced the general climate:

- economic stability and a stable international situation,
- steady and ample supplies of cheap raw materials,

- rapid growth and increasing consumer incomes,
- the realization of the need to achieve fully-fledged cooperation at European level under the leadership of men of the stature of Robert Schuman, Alcide De Gasperi and Konrad Adenauer.

Agriculture, too, was involved in this general developing trend. In almost all the farm regions, a technical revolution was under way. Rapid progress was made in cattlebreeding by the general use of artificial insemination centres; schemes to combat contagious diseases were set up by the national authorities; advisers recruited by the authorities and farmers' organizations gave instruction in modern methods of feeding using ever larger quantities of concentrates. Any alert observer could already foresee a steady increase in production and the danger of surpluses.

This trend was firmly underpinned by the disposal guarantees provided by Community regulations for all skimmed-milk powder and butter that could not be sold on the market. Aid schemes for milk to be used as animal feed and for the private storage of butter and certain cheeses and export refunds rounded off a set of support schemes which to this very day have been completely successful in stabilizing the markets and protecting dairy farmers' incomes.

## 2. The Mansholt Plan

Aware of the threat that a widening gulf between supply and demand would represent, and anxious to support farmers' living standards, Sicco Mansholt, whose strong personality was a feature of this period, proposed in December 1968 a bold plan for the modernization of Community agriculture, which became known as the Mansholt Plan.

For milk, modernization would entail reorganization of production. Making the most of the favourable development of the general economy, the plan set as an objective the creation of herds of an average of 40 dairy cows.

Mansholt was particularly keen to defend the consumption of butter, seriously threatened by competition from imported fats marketed cheap in the Community (in 1968, oilseed prices were running 35% below the 1964-1965 level).

The plan recommended the implementation of a world market stabilization agreement for oils and fats. Realizing that the negotiations would take many years, Sicco Mansholt proposed two immediate measures:

- a 60 ECU/tonne tax on oils and fats. To comply with international commitments, the tax would also be charged on Community products,
- a 30% reduction in the intervention price for butter, offset by a corresponding increase in the price of skimmed-milk powder.

These proposals attracted little immediate interest, but mounting butter stocks in 1969, with the prospect of stocks of 500 000 tonnes by 1970,

prompted the Council to adopt a system of premiums to provide incentives to dairy farmers to discontinue stock-farming and slaughter their dairy cows. The objective was a reduction by 500 000 head in the dairy herd over two years. This scheme was underpinned by the freezing of the milk target price from 1968 to 1971 and a change in the fat/protein ratio by a reduction in the price of butter.

Figures for deliveries from 1969 to 1971 gave an illusion of restored equilibrium on the milk market.

### 3. The October 1973 Memorandum<sup>1</sup>

As a result of the sharp increase in the deliveries in 1972 (nearly 5% up on those for 1971), growing unrest in the international currency system, difficulties created by the monetary compensatory amounts introduced for the first time in 1969, mounting inflation (though at different rates in the various countries), and the problems connected with the accession of three new Member States, the Commission began, early in 1973, to explore ways and means of safeguarding the market organization by adjusting the current regulations.

The amendments proposed concerned three main points:

- the introduction of the concept of farmers' co-responsibility: for the first time a temporary levy on milk delivered to dairies would be charged by the dairies to each farmer. In addition, those dairies a major proportion of whose production was finding its way into intervention would be penalized and required to pay a supplementary charge;
- adjustment of the fat/protein ratio by a reduction in the price of butter to correct the tendency for processors to assign privileged status to products manufactured from skimmed or partly skimmed milk and to improve the competitive position of butter vis-à-vis other fats;
- an obligation on processors to use only butteroil for milk products and ice cream.

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<sup>1</sup>COM(73) 1850 final.

These bold proposals were not immediately endorsed in Council decisions, but they foreshadowed the essential provisions which would be adopted in 1977.

For the export of 200 000 tonnes of butter to the USSR in the summer of 1973 and the success of sales of reduced-price butter on the Community market brought some temporary relief as regards stocks. But the respite was once again only a short one, as by 1975 the gap between production and requirements again widened, and, for the first time, in December 1975, stocks of skimmed-milk powder broke through the one million tonne limit.

The Commission felt that it must review the milk situation again and its work in this field led to the establishment of an action programme for 1977-1980 cautiously entitled "Restoring balance on the milk market".<sup>1</sup>

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<sup>1</sup> News of the common agricultural policy. Offprint of Supplement 10/76, Bulletin of the European Communities.

#### 4. The action programme for 1977-1980

The preamble to this document merits quotation: it is an excellent analysis, still valid in 1987, of the reasons for the difficulties hampering management of the milk sector.

"The single milk market was established on 29 July 1968 at the same time as the market for beef and veal. The past, present and future situation in the milk sector can only be assessed against the background of the policy pursued since then, and in the light of supply and demand and structural change...

"The milk market as a whole has tended to follow the impetus provided by the common agricultural policy, and in particular by the prices and market policy. The behaviour of producers and dairies has been influenced mainly by the substantial increase in milk prices and the high level of the guarantee which together ensure them an unlimited market. A number of other factors should, however, be taken into consideration when studying the disequilibria which are a permanent feature of the milk market.

"Apart from the trend in prices and price relationships, these factors, where supply is concerned, are the action taken by the Member States, technical progress and structural changes on farms and in the processing industry. As regards demand, they are general economic trends and the changes in consumer attitudes.

"The operation of the common organization of the market in milk and milk products is also affected by two imbalances in external protection. They are between:

- "- butter fats versus vegetable fats imported at zero duty (oilseeds) or at low customs duty (oils),
- milk proteins versus vegetable proteins, which are generally imported free of levies and customs duties.

"These two imbalances have an adverse effect not only on human consumption of butter but also on animal consumption of skimmed milk as powder or liquid. They also lie at the root of a milk-soya price relationship which has been very advantageous to milk production since 1968, except during the 1973/74 soya crisis. This price relationship constitutes an added incentive to increase and intensify milk production."

Spelling out the implications of the disequilibria, the Report adds:

"The extent of the structural surplus of the past can be measured by the following two indicators: between 1968 and 1975 the Commission had to dispose of 10% of butter production and 75% of skimmed-milk production, in powder or liquid form, at reduced prices... Expenditure of the Guarantee Section in the dairy sector went up from about 600 million u.a. in 1973 to 1 521 million u.a. in 1976 and some 1 900 million u.a. has been earmarked for 1976.

The conclusion points to the situation liable to arise in the subsequent ten years:

"Medium- and long-term forecasts for the dairy market suggest to the Commission that in the absence of constraints, the present surplus situation can only worsen in coming years".



Without endorsing all the Commission's proposals, which included, in addition to the measures already in its 1973 Memorandum, a tax on vegetable and marine oils and fats, the Council adopted in May 1973 a number of measures for remedial action.

## 5. Legislation of May 1977

There were two key decisions:

- introduction of a system of premiums for the non-marketing of milk and milk products and the conversion of dairy herds to meat production;<sup>1</sup>
- the establishment of a co-responsibility levy<sup>2</sup> of at least 1.5% of the milk target price, payable by all dairy farmers on milk quantities delivered to firms processing milk and by farmers marketing directly their output in the form of other milk products. To accommodate the difficulties certain Community regions had to contend with, mountain and hill dairy farmers were exempted and a lower rate was set for farmers in less-favoured areas, as defined in Directive 75/268/EEC.

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<sup>1</sup>Regulation (EEC) No 1078/77, OJ No L 131, 26 May 1977, p. 1.  
<sup>2</sup>Regulation (EEC) No 1079/77, OJ No L 131, 26 May 1977, p. 6.

To promote consumption both internally and on export markets, all or part of the cost of further promotion of milk products and research into new products and improved products would be defrayed by the Community.

Among schemes to enlarge the milk product market, a special place was given to the encouragement of national schemes for the sale at reduced prices of milk and certain milk products to school children.<sup>1</sup>

Also, the Council called upon the Commission to consult the farmers' organizations when working out its proposals. For this purpose a co-responsibility working group was to be set up, the conclusions of which would be laid before the Advisory Committee on milk and milk products, the Committee's opinion to accompany the Commission's Communication to the Council.

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<sup>1</sup>Regulation (EEC) No 1080/77, OJ No L 131, 26 May 1977, p. 8.

This innovation had the effect of involving the farmers' representatives more directly in problems relating to the disposal of milk surpluses, and thus constituted a first step towards ensuring greater responsibility so that farmers and processors have a greater share of the responsibility for their operations.

During 1977, the Commission sought to cut down skimmed-milk powder stocks by authorizing, on certain conditions, their disposal at reduced prices for use as feed other than for calves (mainly pigs and poultry).<sup>1</sup> Arrangements were also made for the direct use of fresh skimmed-milk powder in animal feed.<sup>2</sup>

### The impact of the 1977 reforms

While low-priced sales of skimmed-milk powder to compounders eased down stocks, the other schemes failed to achieve their objectives. In 1978, for the first time, milk production broke through the 100-million-tonne barrier.

In a report on the situation for milk,<sup>3</sup> the Commission noted, 18 months after the new arrangements had started that "serious disequilibria persist on the milk market", and that available forecasts "point to a serious disequilibrium for becoming years, .... that the armoury of measures taken is still insufficient to control the milk problem... and that the burden on the budget is becoming increasingly unacceptable". Concluding, it reverts to its

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<sup>1</sup>Regulations (EEC) Nos 368/77 (OJ L 52, 24.2.77 p. 19) and 443/77 (OJ L 58, 3.3.77, p. 16).

<sup>2</sup>Regulation (EEC) No 1844/77, OJ L 205, 11.8.77, p. 11.

<sup>3</sup>COM(78) 430 final, 25.9.78.

analysis of 1976: "It is quite clear that high prices with an open-ended disposal guarantee can only encourage farmers to produce more and more, although consumption and outlets are showing little change".

As regards the co-responsibility levy, which "should have played a major role", the Commission noted that this had not been the case and that its introduction had been partly neutralized by price increases conceded at the same time (an increase of 6.5% in the target price for 1977/78 over the price at the beginning of the preceding marketing year). The main advantage of the levy had been to bring home to farmers more clearly the gravity of the milk problem.

After this analysis of the situation, the Commission presents a range of possible approaches, selecting two main alternatives:

- either the application of a production quota system (to farms, dairies or the Member State),
- or the adaptation of existing arrangements by action to adjust prices and guarantees, possibly related to production increases.

Between the two approaches, the Commission preferred the second, fearing that the former might lead "to inequalities between farmers or regions in the Community", that structures might be fossilized, and that schemes of this kind would be difficult to operate. It concludes, "this option would be hard to reconcile with the spirit of the Community, which is based on untrammelled trade".

Consequently, preference was given to the introduction of guarantee thresholds. Any overruns in deliveries would be taken into account when prices were fixed at the next price review.

#### 6. The new guidelines contemplated by the Commission (1980/81)

Three documents drafted by the Commission in 1980 and 1981<sup>1</sup> under the Council's 30 May 1980 Mandate to the Commission laid down new guidelines and allowed of "modulation" of the guarantees in terms of annual production targets set under five-year forecasts of production, consumption and trade, so that farmers would bear at least some of the cost of disposing of that part of their output exceeding the guarantee threshold.

For milk, the production "target" was an increase in deliveries restricted to 0.5% per year. This annual increment matched the growth of consumption in the Community predicted at the time.

At the same time, the Commission proposed maintenance of a cautious policy on prices and tighter co-responsibility rules for farmers by:

- maintenance of the co-responsibility levy near 2.5% of the target price for as long as expenditure on milk would be absorbing more than 30% of EAGGF guarantee expenditure;

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<sup>1</sup> - Reflections on the Common Agricultural Policy, COM(80)800 final, 5.12.80,  
- Report from the Commission of the European Communities on the 3 May 1980 Mandate, COM(81)300 final, 24.06.81,  
- Memorandum supplementing the Commission's Report on the 30 May 1980 Mandate, COM(81)608 final, 23.10.81.

- an additional levy to cover expenditure incurred in the disposal of quantities delivered beyond the production target. This levy, charged by the dairies, would be passed on to individual farmers on the basis of their additional deliveries;
- a special levy on milk from intensive farms.

## 7. Failure of the first application of the guarantee threshold

When the prices were fixed for 1982/83, the Council decided that if deliveries in 1982 exceeded deliveries to dairies in 1981 plus 0.5%, action would be taken to offset the additional expenditure.

This decision thus concerned only the overall responsibility of farmers. No account was taken, as the Commission had proposed, of the degree of intensification of certain farms using large quantities of concentrated feed.

At the same time, the co-responsibility rate was reduced to 2%, and, in view of the rate of inflation, the milk target price was increased by 10.5%.

The 3.6% increase in deliveries in 1982 - an unusually high rate - and the mounting public stocks of butter and skimmed-milk powder induced the Council, when the 1983/84 prices were fixed, to reduce by 3%, pursuant to decisions taken the year previously, by 3% the target price for milk as it had been established according to the customary method. Despite an increase thus restricted to only 2.37% of the target price, the upward movement in deliveries actually gathered momentum to reach a new record with an increase of 3.9% for the 1983 deliveries over those for 1982.

## 8. The Commission's new proposals of July 1983

In the first half of 1983, the Commission found that deliveries were increasing and stocks of butter and skimmed-milk powder were rising rapidly.

Under a mandate from the European Council held in Stuttgart, the Commission laid before the Council in July new proposals for the adaptation of the common agricultural policy.<sup>1</sup>

In this document, the Commission argued that if the additional expenditure resulting from the overruns of the guarantee threshold in 1983 were to be fully offset, the milk price would have to be reduced by at least 12% for 1984/85. Applied to all production, a price cut on this scale might well have engendered serious problems as regards their incomes for the farmers: in 1983 the number of farmers with fewer than ten dairy cows was still more than half.<sup>2</sup>

Also, this measure would have had only a limited impact on deliveries in the short term because it would take farmers some time to adapt to the new prices.

For these reasons, the Commission expressed a preference for a quota system plus a restrictive policy on prices. The draft regulations laid before the Council in September 1983 spelled out the methods of operation of the proposed scheme: the guaranteed quantity would normally be based on 1981 deliveries plus 1%, the levy to be calculated on delivery overruns at dairies, it being up to the dairies to pass on the relevant amounts to the farmers. The

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<sup>1</sup>Common Agricultural Policy: Commission proposals, COM(83)500 final, 28.07.83.

<sup>2</sup>Agricultural Statistical Yearbook 1986, p. 138.

discussions, which lasted into the spring, both with the Member States' senior officials and with the farmers', processors' and consumers' representatives, led the Commission to propose on 22 March 1984 a new text accommodating a number of criticisms levelled at its original proposals: the Member States could now choose between a levy established vis-à-vis the milk purchasers and a levy charged to each farmer. Clearer rules were laid down as regards farmers enjoying priority treatment and as regards quota transfers.

#### **9. Council decision on the control of production**

On 31 March 1984, the Council approved the new arrangements for the control of milk production, to start on 2 April 1984.

The abrupt change of course, and the immediate implementation of the regulations adopted by the Council created a feeling in public opinion and particularly among the farmers and others working in the dairy industry that the right action was now being taken for the industry and that supply was to be brought into line with demand very quickly.

This confidence in the effectiveness of the system despite repeated failures in previous years probably accounts for the positive reaction of most of the farmers', processors', and traders' groups involved.



### III. THE NEW REGULATIONS: THE QUOTA SYSTEM<sup>1</sup>

#### 1. The establishment of the reference quantity

Without discussion of detail, it may be recalled that one of the key decisions - as the future was to show - was the fixing of reference quantities for individual farmers or dairies, depending on the choice made. The problem remaining was to choose the year deliveries for which would enable the relevant quotas to be established. The regulations selected 1981 for all the Community except Greece and Italy.

The choice seemed reasonable: in 1981, partly because of heavy exports of milk products - about 18 million tonnes of milk equivalent - intake of butter and skimmed-milk powder stocks (at 13 000 tonnes and 243 000 tonnes respectively) was pretty well the lowest since the market organization had been started up.

It could be hoped that the expansion of demand on the internal market - estimated at 0.5% per year - would enable some degree of equilibrium between production and requirements to be achieved from 1984 onwards, even if the figures for 1981 were increased by 1%. This optimistic view presupposed unchanged exports, but in fact sales abroad steadily declined in subsequent years.

But the failure of this scheme must also be put down to the concessions made during negotiations and on the occasion of the first period of application, the effect of which was to increase the basic quantity and to soften the impact of the regulations by reducing their binding force.

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<sup>1</sup>See, in this connection, "Milk: the quota system", Green Europe, No 203.

## 2. Qualifications of the rules and their consequences

Two of the qualifying concessions proved particularly regrettable:

- the transfers from direct sales
- regional offsetting

### THE TRANSFERS

Originally, the Commission's draft did not include restrictive measures for farmers selling their milk directly. Trends over many years suggested that in the medium term virtually all milk would go through a purchaser.

During the negotiations in the Council, it became clear that some farmers might be tempted, in order to escape the levy, to sell their milk directly. In order to prevent circumvention of the regulations in this way, the current situation had to be "frozen" and, for this purpose, a maximum quantity likely to be the subject of direct sales as milk or milk products had to be fixed for each Member State.

After some months of the new arrangement, certain Member States found that not all of the guaranteed overall quantities for direct sales were being used, while, on the "deliveries" side, there was some danger of overruns. They asked for, and obtained, endorsement as to principle from the Council, and the Commission made a reduction in the guaranteed overall quantities assigned to direct sales with a corresponding increase in the guaranteed quantities in respect of deliveries. As a result, 926 574 tonnes of milk were transferred from one category to the other, bringing, for the second period and succeeding periods, the guaranteed overall quantity for the ten countries to 99 471 574 million tonnes, i.e. 103.2% of total deliveries for 1981.

## REGIONAL OFFSETTING

For the purposes of determining the levy, the Council had decided to leave it to the national authorities to opt between two systems, "Formula A" and "Formula B", for each of the regions in each country.

Under Formula A, the levy is payable "by any milk producer on milk quantities and/or milk equivalent which he has delivered to a purchaser and which, during the relevant twelve-month period, exceed a reference quantity to be determined".

Under Formula B, the levy is payable "by any purchaser of milk or other milk products on quantities of milk or milk equivalent which have been delivered to him by producers and which, during the relevant twelve-month period, exceed a reference quantity to be determined". The purchaser passes the levy on to only those farmers who have increased their deliveries, in proportion to their contribution to the overrun of the purchaser's reference quantity.

A majority of the Member States - Denmark, France, Greece, the United Kingdom (except for Northern Ireland), Ireland and Luxembourg - chose Formula B, but others - Germany, Belgium, the Netherlands and Italy - chose Formula A.

Because of offsetting at dairy level, the levy rate was set at 100% of the target price for Formula B and 75% for Formula A. Bearing in mind the situation for dairy farmers delivering to a purchaser serving a very large collection area, which could in certain extreme cases cover the entire country, the scale of offsetting that could be achieved was very large, much weakening the extent to which overruns were penalized.

While the levy was thus reduced - in some regions - by more than 80%, the most efficient farmers were prepared to take the risk of further increases in deliveries, well beyond their quotas, as they calculated that the price obtainable still covered marginal costs.

This weakening in the system was further accentuated by the Council's decision<sup>1</sup> to authorize Member States "to allocate unused reference quantities of producers or purchasers to producers or purchasers in the same region or, where appropriate, in other regions." This rule, made for a limited period, was subsequently extended to the second, and then the third period, and ultimately to the five years of operation of the scheme.

It has the advantage of ensuring some degree of equality of treatment between farmers in a single Member State, and it forestalls any temptation to devise at national level artificial legal interpretations enabling maximum offsetting to be obtained through a single purchaser.

But it also has the effect of considerably weakening the regulation as a deterrent and of granting to farmers subject to Formula A all the advantages attached to Formula B.

Commission estimates<sup>2</sup> indicate that regional offsetting induced in 1985 an effective increase in deliveries escaping the additional levy of about 1 million tonnes.

But the offsetting also had psychological repercussions: farmers who had cut back deliveries to comply with their quotas, in some cases by culling, felt that they had been misled when they found that some of their neighbours, who

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<sup>1</sup>Article 4a of Regulation (EEC) No 857/84.

<sup>2</sup>COM(86)510 final, 11.09.86.

had defied the curtailments imposed and had gone on increasing deliveries, escaped sanctions of any kind because of the offsetting arrangements.

The bitterness some farmers felt when they found that defiance of the regulations had paid off handsomely for others severely inhibited efforts to cut production and contributed to the overruns in the following two periods.

The consequences of the arrangements qualifying the rules as laid down in 1984 were aggravated by the decline in the cost of inputs, particularly the decline in the prices of raw materials used for making up feed.

"Since 1984," the Commission stated, "the purchase prices in real terms of inputs for milk production have dropped sharply, especially feed prices."

Comparative changes (%) in milk production costs/kg and milk farmgate prices for 1983-1986 (real terms)

Cost changed	1984	1985	1986	Total for the period
Total for inputs	- 3.4	- 7.2	- 6.4	- 16.1
of which, feed prices	- 3.6	-10.5	- 5.1	- 18.1
milk prices	- 4.7	- 2.6	- 2.2	- 9.2

This generalization cannot be applied to all the Community's regions because of the diversity of operating conditions and because milk production costs vary so much. It is the most fortunate farmers, favoured either by their geographical location near the main ports or by the high yields of their dairy breeds, who will be benefiting most from the improving ratio of milk prices to feed costs.

### 3. Deliveries to dairies

For the first two periods of operation of the quota scheme, there was, despite the imperfections, a definite switch in the trend since 1982 and 1983 which for the two years had engendered an increase of 7.4 million tonnes in deliveries. If no action had been taken, the 1986 deliveries would have reached, and perhaps even exceeded, 110 million tonnes in the Community of Ten.

During the first period (1984/85), milk sent to dairies fell short by 342 000 tonnes of the guaranteed overall quantity of 99.442 million tonnes,<sup>1</sup> including 393 000 tonnes of the reserve.

Deliveries in the second period (1985/86), on the other hand, exceeded by about 0.9 million tonnes the guaranteed overall quantity set at 98.996 574 million tonnes.<sup>1</sup>

This 3.63% reduction in total deliveries compared with 1983 should have meant a sharp reduction in the quantities of butter and skimmed-milk powder bought in.

But, as the Commission points out in its Communication to the Council of 11 September 1986,<sup>2</sup> "with consumption within the Community and on the world market marking time and keener competition from the main exporting countries, the gap between supply and demand has widened".

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<sup>1</sup>Not including 475 000 tonnes transferred in Italy from direct sales to deliveries.

<sup>2</sup>COM(86)510 final.

#### 4. Declining demand

Despite the scale of costly butter and skimmed-milk disposal schemes, consumption of milk and milk products in the Community has failed to reach the expected level.

It is true that as a result of reduced-price sales and the reduction in butter market prices, consumption is no longer declining in certain Member States, but the decline in demand for fresh products has continued and the upward movement in consumption of cheeses, that had been steady for a number of years, has lost momentum.

The sale of skimmed-milk powder for feed accounted for 612 000 tonnes in 1984, 285 000 tonnes in 1985 and 272 000 tonnes in 1986, although the scheme was suspended from June 1985 to August 1986.

The figures show that despite the drive to improve consumption of milk products, the overall quantity expressed in milk equivalent has not risen much above 85 million tonnes for the Europe of Ten.

#### EXPORTS

Despite some improvements in world market demand from 1985 onwards, notably for butter, butteroil and skimmed-milk powder, Community exports have shown little increase over 1984 and have remained well short of the 1980-81 figure (see Annex 4).

The Community's share has declined for all products except concentrated milk. In 1985, for the first time for a number of years, tonnages of cheese exported declined - by 12.5% (as compared with 1984).

This is partly because of increasingly keen competition from other exporting countries, especially the United States and New Zealand, which also have surpluses to contend with owing to an increase in deliveries.

New policies adopted by these two countries - price reductions in New Zealand, reductions in deliveries and possibly also in prices in the United States - should prompt a recovery of the world market. This tendency may well gather strength as soon as Community stocks have been scaled down.

#### IMPORTS

Under previous Community agreements with certain non-member countries, annual imports of about 100 000 tonnes of cheese are added to Community production.

For butter, the Council has agreed on the quantities that may be imported until 1988 from New Zealand. Though declining in quantity, these imports will still come to 76 500 tonnes of butter in 1987 and 74.500 tonnes in 1988.

The balance for 1985 shows that about 2.4 million tonnes of milk equivalent were imported into the Community in that year.



## 5. A heavy surplus on the balance

Drawing on the various figures available, the Commission has assessed the structural surpluses in the Europe of Ten and produced the following balance:<sup>1</sup>

	m tonnes	
1. Quantities guaranteed for deliveries	99.5	
2. Actual deliveries	100.5	
3. Quantities guaranteed for direct sales	3.4	
4. Imports	2.4	
	<b>Total supply</b>	<b>106.3</b>
5. Internal consumption	85.0	
6. Exports	11.7	
	<b>Total demand</b>	<b>96.7</b>
	<u><b>SURPLUS</b></u>	<u><b>9.6</b></u>

### A SHARP INCREASE IN QUANTITIES WITHDRAWN FROM THE MARKET

The disequilibrium is reflected in the increase in butter and skimmed-milk powder bought in despite aids to the disposal of skimmed milk for feed and subsidies to users of fresh butter, in particular for ice cream and pastry products. All in all, more than 2 million tonnes of milk powder equivalent and 169 000 tonnes of butter were aid-supported in 1986. These quantities must be borne in mind in any assessment of the scale of the milk surpluses, reflected in part by the quantities bought in, reaching 602 000 tonnes for

<sup>1</sup> Report to the Council on the application of the levy system in the milk sector, COM(86)645 final, 17.11.86.

skimmed-milk powder and 655 000 tonnes for butter in 1986.<sup>1</sup>

For butter alone, the table below, showing the trend in buying in since 1983, is particularly eloquent:

**Butter intake to public storage from  
1983 to 1986 ('000 tonnes)**

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	1983	1984	1985	1986
Intake	636	507	490	655 <sup>2</sup>
Change vis-à-vis 1983	100	79.7	77	102.9

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Despite schemes to curb production, more butter was withdrawn from the market in 1986 than in 1983. The downward movement of 1984 and 1985 has been reversed and the policy on butter is back, as it were, to "square one".

#### STOCKS OF BUTTER AND SKIMMED-MILK POWDER

Annex 6 shows changes in stocks of butter and skimmed-milk powder. More than 1 200 tonnes of butter and more than 800 000 tonnes of skimmed-milk powder were held by the agencies on 1 January 1987 despite action taken to step up disposal by very sharp reductions in the sales prices of products taken from store and marketed for specific uses. In all, 360 000 tonnes of butter and 350 000 tonnes of skimmed-milk powder were withdrawn from store under these schemes.

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<sup>1</sup>The 43 000 tonne reduction in quantities taken into private store compared with 1985 also contributed to this increase in public stocks.

<sup>2</sup>This figure also covers quantities bought in in Spain (12 000 tonnes).

To the losses suffered in respect of quantities disposed of in this way at reduced prices must be added the cost of storing existing stocks, which comes to 350 ECU/t for butter and 150 ECU/t for skimmed-milk powder per year.

The rate at which these products are being removed from store must therefore be stepped up, but, as the Commission has noted, "sales of old stocks - though still feasible - are hampered by a number of practical and financial problems and the cost is much the same as the cost of destroying them".

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Because of the persisting disequilibrium despite the introduction of the quotas, of the increase in stocks, and of the budgetary problems engendered by the surpluses, the Commission laid before the Council in December 1986 proposals for emergency action.<sup>1</sup>

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<sup>1</sup>Emergency action in the milk sector.  
Council, of 12.09.86, COM(86)510 final.

Commission Communication to the

## 6. The action proposed by the Commission<sup>1</sup>

The action contemplated related to the achievement of two objectives:

- prompt restoration of the effectiveness of the quotas,
- the intervention arrangements to resume their proper role.

### MAKING THE REGULATIONS EFFECTIVE ONCE AGAIN

- The Commission takes the view that applications for transfers of global quantities from direct sales to global quantities guaranteed as deliveries are not always justified and will therefore not contemplate further transfers.
- The Commission, which had announced in September its intention to discontinue forthwith the facility for regional and interregional offsetting (Article 4a), states that it is not contemplating the extension of this scheme beyond the current period.
- It proposes that Formula B be discontinued, that the quota scheme apply in all cases at the level of the individual farmer and that the levy on surplus deliveries be raised to 100% of the milk target price.
- It would like to see the reduction in the volume of deliveries resulting from the implementation of the decisions already adopted as regards the introduction of the Community programme for cessation of production<sup>2</sup> to be supplemented by a further reduction of at least 2 million tonnes in the reference quantities.

The measures proposed, all in all, should yield a total reduction in deliveries, as compared with the present level, of 9.5 million tonnes.

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<sup>1</sup> Report to the Council concerning the application of the levy system in the milk sector, 17.11.86, COM(86)645 final.

<sup>2</sup> Regulation (EEC) No 1336/86, OJ L 119, 8.05.86, p. 21.

## ADJUSTING THE INTERVENTION ARRANGEMENTS

The Commission recalls the proposals it submitted in September:

- restriction of buying in of skimmed-milk powder in the period between 1 April and 15 September - market stabilization could be ensured by reactivation of Regulation (EEC) No 1844/77<sup>1</sup> or by a system of buying in limited quantities by tender procedure,
- the possibility, requested from the Council, of suspending for temporary periods in exceptional circumstances buying in of butter and of skimmed-milk powder during this same period.

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<sup>1</sup>Regulation (EEC) No 1844/77, OJ No L 205, 11.08.77, p. 11.

#### IV. THE NEW REGULATIONS:

##### THE AGRICULTURAL AGREEMENT OF 16 DECEMBER 1986<sup>1</sup>

This agreement relates to fundamental reforms of the milk and beef/veal market organizations.

It is in line with the Commission's proposals. However, for milk, the Council did not agree that regional and interregional offsetting should be discontinued, or that Formula B should be eliminated, as urged by the Commission. On the other hand, major decisions were taken on three essential points:

- a reduction in guaranteed overall quantities and the strengthening of the quota system,
- adjustment of the intervention mechanisms,
- resources for financing an additional stock disposal programme.

This political agreement was given practical expression at the Council meeting held on 3 and 4 March as regards the first two points and by the Council of Ministers of Foreign Affairs of 14 March 1987 as regards the third point, which, in the Agriculture Council, had been opposed by certain Member States. The Council's decisions on guaranteed overall quantities related:

- to adaptation of Regulation (EEC) No 1336/86<sup>2</sup> fixing compensation for the definitive discontinuation of milk production,
- to the temporary suspension of part of the reference quantities referred to in Article 5c(1) of Regulation (EEC) No 804/68.

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<sup>1</sup>The agricultural agreement of 16 December 1986.

<sup>2</sup>Newsflash, Green Europe, No 38.

<sup>2</sup>Regulation (EEC) No 1336/86, OJ L 119, 8.05.86, p. 21.

## 1. Adaptation of the arrangements for ceasing deliveries

### ADAPTATION OF REGULATION (EEC) No 1336/86

Regulation (EEC) No 776/87,<sup>1</sup> which amends Regulation (EEC) No 1336/86, has the twofold objective of increasing the original allowance to enhance the incentive and of making the system more flexible so as to prevent the implementation of the arrangements leading to dismantlement of production and collection facilities.

### AN INCREASE IN THE PREMIUM

The allowance, financed by Community funds, is increased from 4 ECU to 6 ECU per 100 kg.

A new Annex II determines the amounts to be paid to each Member State, resulting from the increase in the allowance.

### BROADER POWERS CONFERRED ON THE MEMBER STATES

The Member States can therefore, for the purpose of efficiency, withhold the allowance from farmers having less than 10 dairy cows or whose reference quantity falls short of 25 000 kg per year.

They are authorized to take the necessary action to ensure that reductions in quantities are, as far as possible, spread evenly over the regions and collection areas of the Member States.

Article 2(3) of Regulation (EEC) No 1336/86 had provided for adaptation of the supplementary allowance that might be granted by the Member States so as to allow for local conditions and in particular the need to avoid hampering restructuring of dairy production. Article 3(2) of Commission Regulation (EEC) No 2321/86<sup>2</sup>, laying down detailed rules for the application of Regulation (EEC) No 1336/86, lists the criteria on the basis of which the Member States may, where the sum of eligible applications exceeds the quantity set by the Regulation, disallow certain applications and adjust, as appropriate, the basic allowance.

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<sup>1</sup>Regulation (EEC) No 776/86, OJ L 78, 20.3.86, p. 8.

<sup>2</sup>Regulation (EEC) No 2321/86, OJ L 202, 25.7.86, p. 2.

The new provisions go further. The sum of the applications no longer has to refer to quantities superior to those fixed before the Member States - with a view to an even spread of the reductions over the regions and the collection areas - can disallow certain applications. Which means, to comply with the guaranteed overall quantities referred to in Article 5c(3), a linear distribution of the shortfall.

The Member States are also authorized to pay allowances in the first year for abandonment of dairy production corresponding to the quantities laid down for the second year (3% instead of 2%). In this case, dairy farming must effectively be discontinued by 31 March 1987 for all the quantities referred to in Annex I.

#### PURSUIT OF NATIONAL RESTRUCTURING SCHEMES

In most of the Member States, programmes of aid to total or partial cessation of production financed by national funds have been implemented since 1984, under the provisions referred to at Article 3(2) and Article 4(1) of Regulation (EEC) No 857/84.<sup>1</sup>

The quantities released, assigned, partly or wholly, to the national reserve, enabled the authorities to grant additional quantities to priority groups.

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<sup>1</sup> Regulation (EEC) No 857/84, OJ L 90, 1.4.84, p. 13.



The new paragraph 5 of Regulation (EEC) No 1336/86 stipulates that unused amounts of Community funds placed, in accordance with Annex II, at the disposal of the Member States, may also be assigned to these programmes in the following cases:

- where the quantities referred to in Annex I have been reached with an allowance falling short of 6 ECU,
- where the quantities referred to in Annex I could not be reached,
  - . either because the number of applications was insufficient,
  - . or because use of the authorization accorded to the Member States entailed disallowing some of the applications in order to ensure an even spread between regions or collection areas.

## 2. Suspension of a proportion of the guaranteed overall quantities

### A TEMPORARY MEASURE

The position adopted by the Council is that the additional reduction in quotas felt necessary should have a temporary character, hence the suspension from the fourth twelfth-month period of a uniform proportion of each reference quantity, this proportion being fixed in such a way as to ensure that the sum of the suspended quantities is 4% for the fourth period and 5.5% for the fifth period.

The Council spread the effort required of farmers over two years to facilitate adaptation, but to retain some flexibility in the system at the same time, as is also reflected in Article 8 of Regulation (EEC) No 775/87<sup>1</sup>: this Article stipulates that before the end of the fourth twelfth-month period of the additional levy system, having due regard to the outlook for the market and stocks, the Council ..... "may .... decide to restrict the rate of withdrawal of each reference quantity from the fifth twelfth-month period onwards to the rate adopted for the fourth period". Abrupt changes in the situation in the past justify this cautious approach.

#### COMMUNITY FINANCIAL COMPENSATION

The Council has approved an allowance proportionate to the efforts required of the farmer in order to avoid any unduly sharp impact on the budget of the farm of such a reduction in milk quantities delivered.

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<sup>1</sup> Council Regulation (EEC) No 775/87 of 16 March 1987 temporarily withdrawing a proportion of the reference quantities mentioned in Article 5c(1) of Regulation (EEC) No 804/68 on the common organization of the market in milk and milk products, OJ L 78/87, 20 March 1987, p. 5.

The allowance of 10 ECU per 100 kg is paid:

- during the first quarter of 1988 for quantities suspended for the fourth twelfth-month period,
- during the first quarter of 1989 for the quantities suspended for the fifth period - up to the quantities referred to under the first indent.

The Council may, as appropriate, decide before 1 April 1988 whether the 1.5% additional compensation will be accorded in the same manner as for the 4% or whether it is to take the form of an appropriate reduction in the rate of the co-responsibility levy referred to in Regulation (EEC) No 1079/77.<sup>1</sup>

#### NATIONAL FINANCIAL PARTICIPATION

The Member States are authorized, for the fourth period, to increase the allowance paid for the quantities suspended up to 12.5 ECU/100 kg.

#### WAIVERS

There are waivers to the procedures outlined above:

- waivers apply to two Member States, Spain and Italy, because of the special difficulties which the suspension would raise, given the production structures in these countries,
- there are waivers the purpose of which is to enable the Member States which, in their quota distribution among farmers, have exceeded the overall quantity allocated to them, to reduce individual allocations without raising undue difficulties for those concerned.

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<sup>1</sup>OJ L 131, 26.5.1977, p. 6.

#### ARRANGEMENTS FOR ITALY

Italy is authorized to go on implementing a dairy farming voluntary cessation programme in accordance with Article 4(1)(a) of Regulation (EEC) No 857/84 to achieve the objectives set by the new regulations "without, however, jeopardizing the restructuring of dairy production referred to in that Regulation".

#### ARRANGEMENTS FOR SPAIN

Spain has also been left some freedom for manoeuvre. The objectives are the same, but Spain may replace suspension according to a uniform proportion of the reference quantities with a cessation arrangement or an arrangement for partial and voluntary suspension of the reference quantities, the cessation arrangement being financed according to the rules laid down in Regulation (EEC) No 1336/86, and the suspension arrangement being financed according to the provisions of the general system (10 ECU/100 kg of Community contribution, and, for the fourth period, a national contribution that may be limited to 2.5 ECU/100 kg).

#### MAKING UP THE REFERENCE QUANTITIES

For the reasons already given, the Regulation authorizes the Member States to suspend in the fourth period the quantities laid down for the fifth period, provided they finance in full the allowance for quantities suspended exceeding 4% of the guaranteed overall quantity.

### 3. Strengthening the quota system

The Commission's proposal to allow Article 4a to lapse was not accepted, but Council Regulation (EEC) No 773/87,<sup>1</sup> amending Regulation (EEC) No 804/68 on the common organization of the market in milk and milk products, and Council Regulation (EEC) No 774/87,<sup>2</sup> amending Regulation (EEC) No 857/84<sup>3</sup> adopting general rules for the application of the levy, include new provisions strengthening the effectiveness of the levy:

#### SINGLE RATE AT 100% OF THE LEVY

The distinction between Formula A for which the levy was 75% of the target price, and Formula B, where it was 100%, has been discontinued, the single rate being fixed at 100% of the milk target price.

#### FARMERS TO ASSUME FULLER RESPONSIBILITY WHERE THERE ARE OVERRUNS

The operation of Formula B has been altered so as to give the levy maximum deterrent effect. It has been stipulated that the purchaser must pass on the levy to those farmers who have contributed to overrunning the reference quantities, after distributing among them quantities that can be redistributed proportionately to the individual reference quantity. The Member States may reallocate in priority such quantities to certain farmers selling to this purchaser or to another purchaser, determined according to objective criteria.

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<sup>1</sup>Regulation (EEC) No 773/87, OJ L 78, 20.3.1987, p. 1.

<sup>2</sup>Regulation (EEC) No 774/87, OJ L 78, 20.3.1987, p. 3.

<sup>3</sup>Regulation (EEC) No 857/84, OJ L 90, 1.4.1984, p. 13.

To give farmers more responsibility, the Member States have been authorized - even where the quantities delivered do not exceed the purchaser's reference quantity - to charge the whole of the levy to all farmers exceeding their reference quantities by 10% or more or by 20 000 kg or more. This rule can already be applied on the occasion of the final account settlement for 1986/87.

#### 4. Changes to the intervention arrangements

Having noted that "the intervention arrangement has ceased to act as a short-term market stabilization mechanism during periods of heavy output to become a production outlet in its own right, more attractive than normal market outlets", the Council adopted Regulation (EEC) No 773/87,<sup>1</sup> amending Regulation (EEC) No 804/68, and Regulation (EEC) No 777/87,<sup>2</sup> amending the scheme for buying in butter and skimmed-milk powder. Two important rules have been introduced: a curb on buying in and the possibility of their suspension.

##### LIMITED BUYING IN

As regards skimmed-milk powder, Article 7(1) of Regulation (EEC) No 804/68 stipulates that the intervention agency appointed by the Member State must buy in at the intervention price all first-quality skimmed-milk powder produced in the Community offered during the period beginning on 1 March and ending on 31 August.

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<sup>1</sup>Regulation (EEC) 773/87, OJ L 78, 20.3.1987, p. 1.

<sup>2</sup>Regulation (EEC) 777/87, OJ L 78, 20.3.1987, p. 10.

## SUSPENSION OF BUYING IN

Article 1 of Regulation (EEC) No 777/87 stipulates that:

- the authorities may suspend buying in of butter throughout the Community, or, if the market situation so justifies, in part of the Community, if and when, from 1 March 1987 onwards, quantities offered to intervention exceed 180 000 tonnes,
  
- buying in of skimmed-milk powder now restricted to the period from 1 March to 31 August can also be suspended if and when the quantities offered to the agencies from 1 March onwards exceed 100 000 tonnes.

## SAFEGUARDING THE STABILITY OF THE MARKET

Regulation (EEC) No 773/87 amending Regulation (EEC) No 804/68 inserts in the latter Regulation an Article 7a containing provisions designed to offset the impact of the new measures on the stability of the market.

- in the new Article 7a(1), the Commission is called upon "should implementation of the measures ..... disturb the balance of supplies to dairies" to take action to discourage dairies from sending too much butter or skimmed-milk powder to intervention. As butter and powder is generally not produced where demand is heaviest, supply difficulties could well occur in certain areas if the quantities available in others were sent to intervention rather than being placed upon the market;
- in the new Article 7a(2)(a), the Council stipulates that where buying in of skimmed-milk powder is suspended, aids for the private storage of skimmed-milk powder are to be granted under the conditions defined in accordance with the management committee procedure. This incentive to private storage is designed to facilitate the carryover of surplus quantities to months of low production and thus ensure steady supplies for users;
- in the new Article 7a(2)(b), the Commission is empowered to take action to increase the scope for disposing of butter and skimmed-milk powder not bought in by the agencies or supported by private storage aids and of other milk products such as cream.

Regulation (EEC) No 777/87 modifying the intervention arrangements for butter and skimmed-milk powder includes other provisions designed to cushion the impact on the Community market or on those of certain Member States of the cessation of buying in.



The main provision consists in the resumption of buying in of butter in certain circumstances.

#### CIRCUMSTANCES ENTAILING RESUMPTION OF BUYING IN OF BUTTER

Article 1(4) of the Regulation stipulates that should a reduction in butter market prices in one or more Member States reach a level equal to, or less than, 92% of the intervention price for a representative period, the buying in provided for in Article 6(1) of Regulation (EEC) No 804/68 must be resumed in the Member States concerned. However, the level for "activating buying in" can be reduced to 90% of the intervention price if physical stocks of butter held by the agencies - not including quantities offered before 1 March - exceed a total of 250 000 tonnes.

The restriction of intervention to a given limited area of the Community breaks new ground as regards milk products: the market organization regulations had been based on the assumption that trade flows ensured price equilibrium and that the buying in of surpluses where they emerged must affect the whole market. This presumption has been brought into question by the currency disparities, which, to some extent, fragment the market and may justify support measures at particular locations.

#### BUYING IN BY PERMANENT TENDERING PROCEDURES

The possibility of withdrawing given quantities of butter or skimmed-milk powder from the market at prices fixed by tender procedures is another way of safeguarding market stability when buying in is suspended.

## ACCOMMODATING SPECIAL SITUATIONS IN IRELAND AND SPAIN

When buying in is suspended, the importance of a stable butter market for the remuneration of dairy farmers in Ireland will be borne in mind.

Similarly, for the calculation of market price levels and for the application of supplementary market support measures, the authorities must allow for the situation arising for Spain as a result of prices differing from the common prices.

Although the legal instruments modifying the intervention arrangements do not mention time limits for payment or taking over, it has been agreed that the present rules (120 days for payment and 120 days for taking over) would be altered by the Commission when buying in is resumed after a suspension.

For butter, payment would be made within 90 days and the period for taking over would be eliminated altogether.

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The rules for the suspension of buying in leave the Commission some time to adopt the implementing measures and to determine, in particular, how the butter prices enabling market conditions to be monitored are to be recorded: the Commission has some experience, partly acquired through the operation of support for the beef/veal market, but its task will be a difficult one for milk products because of the wide range of ways in which quotations are established in the Member States.

The setting up, where necessary, and the operation of national agencies responsible for establishing these quotations will require vigilant supervision by the Commission. There is a case for convening, at Community level, a joint committee representing purchasers and sellers to monitor market trends in the Member States and vet the price reports sent to the Commission.

## 5. Decisions relating to stock disposal

The Commission felt that an additional butter stock disposal programme should be implemented without delay. The 1 243 000 tonnes held on 1 January 1986 were not only expensive to maintain but their existence was also tending to depress world market prices.

The two-year programme (1987 and 1988) includes the following measures:

	'000 tonnes	
	1987	1988
Exports to specified destinations	400	-
Feed	200	200
Uses other than feed or food	100	-
Special scheme for Community consumers	65	65
<b>TOTAL</b>	<b>765</b>	<b>265</b>

The cost of this programme, covering 1 030 000 tonnes of butter, was estimated at 3 200 million ECU, i.e. 3 107 ECU/tonne, quite close to the present butter intervention price - 3 132 ECU/tonne.

## THE FINANCING OF THE ADDITIONAL DISPOSAL PROGRAMME

Council Regulation (EEC) No 801/87,<sup>1</sup> laying down general rules for the financing of interventions by the European Agricultural Guidance Guarantee Fund, Guarantee Section, lays down specific financing rules the purpose of which is to stagger over four years from 1989 onwards the financing of this programme.

" .... financing of the loss on the sale shall begin in 1989 and shall be limited to 25% of the amount of the loss recorded during the financial year concerned. The remaining 75% shall be financed in instalments of 25% over the following three financial years".

The unreimbursed amounts in respect of losses calculated in this way will attract interest. The Member States would thus receive, during the 1987-91 period, 620 million ECU to cover capital tied up.

The Commission takes the view that reorganization of the stock situation on the basis of this additional programme and action to ensure control of milk production will serve to reduce expenditure on financing the Community's public stocks and will thus enable the Community to cover the reimbursement to the Member States of the expenditure entailed by the additional disposal programme.

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<sup>1</sup> Regulation (EEC) No 801/87, 15.3.1987, OJ L 79, p. 14.

## V. CONCLUSION

Important decisions have been taken with a view to restoring equilibrium on the market in milk and milk products. The attempts made since 1968 to achieve this objective, outlined above, were not as successful as had been hoped. The improvements had been short-lived and after each crisis the authorities had had to go back to the blueprints and start again. The major reform put through in 1984 was felt by most observers to mark the end of this long march. They were wrong, for the reasons summarized above.

The new measures now taken represent a considerable strengthening of the machinery designed to influence production: the 9.5% reduction over two years in the guaranteed overall quantity, corresponding to a reduction of about 10 million tonnes in total deliveries, should mean that the intervention agencies will be buying in much less butter and skimmed-milk powder. What about demand? It seems unlikely that Community exports will decline further in the near future and imports of butter from New Zealand should continue to be eased down. On the other hand, consumption in the Community is still threatened by the emergence of substitutes against which so far no action has been taken.. Will the tendency to use less and less milk fat in milk products noted in recent years be corrected by the restrictions on buying in? No answer to this question can be given at the present time.

Despite uncertainties and all the administrative problems which are bound to arise in connection with implementing the new regulations, it may be hoped that by the end of the five-year period fixed in 1984 for the application of the quotas, production will have been brought back to a level more closely related to that of requirements, even if the latter continue to decline.

If this were not the case, and if the quantities of skimmed-milk powder and butter bought in remained large despite the adjustments made to support mechanisms, this would be conclusive evidence that it was presumptuous to imagine that in an association as vast as that of the Community of Twelve it was possible to administer a binding system for controlling production.

If this happens, the alternative policy of a sharp decrease in prices would become inevitable. Despite progress made on restructuring production and improving productivity in most of the Member States, this policy would force into the foreground the problem of farmers' incomes and of the survival of a large number of farms eking out a marginal existence with no other type of enterprise to turn to (by 1985, the number of dairy farmers owning less than 10 dairy cows was still as much as 46.6% of all dairy farmers).

The consequences for the common agricultural policy would be serious. The national government departments and the farmers' organizations are well aware of the danger of disruption. So that there is a strong incentive to the former to make every effort to ensure that the new regulations succeed and to the latter to show moderation by helping their members to accept the short-term sacrifices they are called upon to make and by encouraging any action that can improve production structures.

## SUPPLY AND DEMAND FOR BUTTER AND SKIMMED-MILK POWDER IN 1968

('000 t)

	EEC	DENMARK	IRELAND	UNITED KINGDOM	TOTAL
<b>BUTTER</b>					
Production	1 397.0	159.9	77.0	55.0	1 688.9
Imports	3.5	-	-	292.1	295.6
TOTAL	1 400.5	159.9	77.0	347.1	1 984.5
Exports	66.1	2.1	9.4	0.8	78.4
Internal consumption	1 165.0	46.3	38.2	492.1	1 741.6
TOTAL	1 231.1	48.4	47.6	492.9	1 820.0
<b>SURPLUS</b>	<b>169.4</b>				<b>164.5</b>
<b>SKIMMED-MILK POWDER</b>					
Production	1 318.0	34.0	28.8	96.2	1 477.0
Imports	11.2	7.7	0.5	23.8	43.2
TOTAL	1 329.2	41.7	29.3	120.0	1 420.2
Exports	230.5	7.0	18.7	10.7	266.9
Internal consumption	962.2	46.6	3.5	106.3	1 118.6
TOTAL	1 192.7	53.6	22.2	117.0	1 385.5
<b>SURPLUS</b>	<b>136.5</b>				<b>134.7</b>



## ANNEX 2

**NUMBERS OF DAIRY COWS, YIELDS PER HEAD,  
PRODUCTION AND DELIVERIES FROM 1974 TO 1986 - EUR 10**

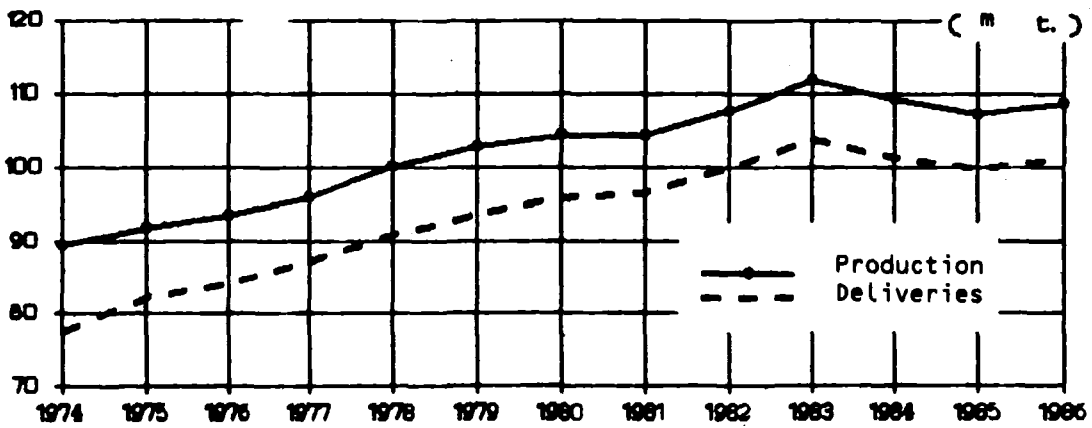
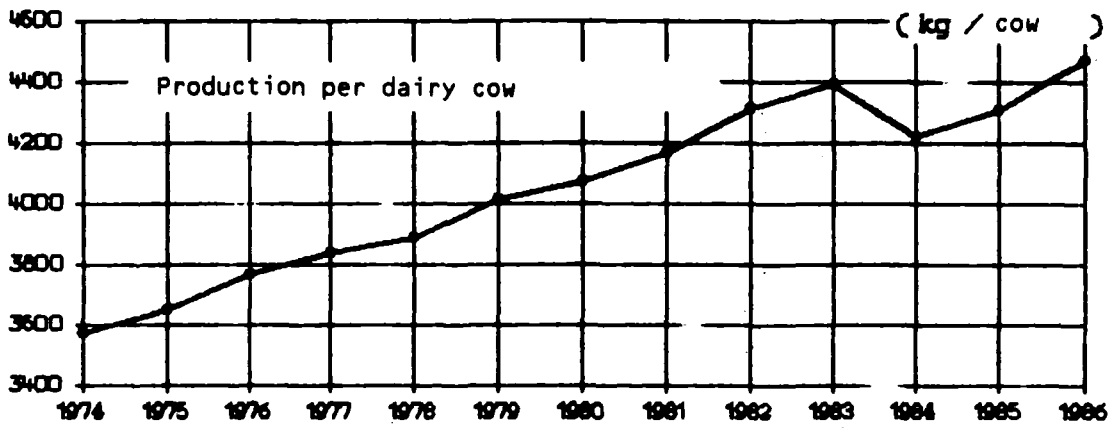
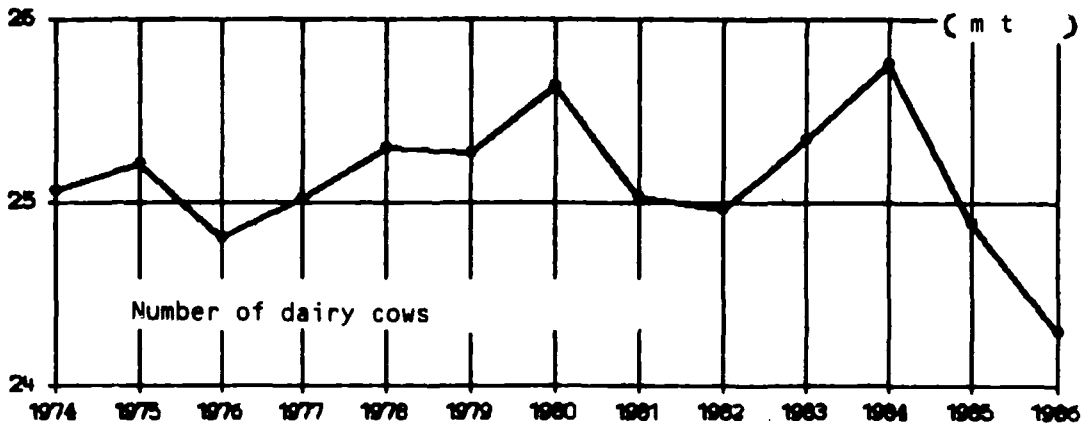
YEAR	No OF DAIRY COWS ( '000 head)	YIELDS (kg)	PRODUCTION ( '000 t)	DELIVERIES ( '000 t)
1974	25 070	3 576	89 651	77 566
1975	25 217	3 648	91 982	82 053
1976	24 808	3 770	93 525	84 267
1977	25 026	3 840	96 062	87 097
1978	25 297	3 892	100 239	90 922
1979	25 273	4 013	102 967	93 463
1980	25 644	4 073	104 445	95 751
1981	25 033	4 172	104 451	96 391
1982	24 970	4 314	107 660	99 879
1983	25 354	4 394	111 917	103 677
1984	25 765	4 227	109 295	101 334
1985 <sup>1</sup>	24 895	4 308	107 255	99 747
1986 <sup>1</sup>	24 304	4 473	108 700	101 200

EUROSTAT

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<sup>1</sup>Provisional

MILK PRODUCTION  
EUR 10  
( 1974 - 1986 )



Source : EUROSTAT

Herd as counted on 1 January

EEC VI A2 April 8705 MO

## ANNEX 3.-

## COMPARISON BETWEEN DELIVERIES AND GUARANTEED OVERALL QUANTITY

IN 1985/86

('000 tonnes)

- TENTATIVE ESTIMATES -

	OVERALL REFERENCE QUANTITY  1985/86	DELIVERIES 01-04-1985 31-03-1986	DIFFERENCE	OVERALL REFERENCE QUANTITY (1)	
				1987/88	1988/89
Germany	23.423	23.718,9	+ 296	22.954,540	22.720,310
France	25.494	25.734	+ 240	24.984,120	24.729,180
Italy	8.323 (a)	8.353 (a)	+ 30	8.622,040	8.534,060
Netherlands	11.979	12,252	+ 273	11.739,420	11.619,630
Belgium	3.161	3.201	+ 41	3.097,780	3.066,177
Luxembourg	290	294,2	+ 4,2	259,700	257,050
United Kingdom	15.394,574	15.414	+ 8	15.022,983	14.869,687
Ireland	5.583	5.587	+ 3	5.174,400	5.121,600
Denmark	4.882	4.884	+ 2	4.784,360	4.735,540
Greece	467	(460)	0	457,660	452,990
<b>TOTAL</b>	<b>98.996,574</b>	<b>99.898</b>	<b>897</b>		
Spain				4.557,000	4.510,500

(1) As decided by the Council in May 1986. These are the quantities to which will be applied the measures for suspension and reduction of deliveries approved in March 1987 for the fourth and fifth quota application periods.

(a) Excluding 457 000 tonnes transferred from direct sales to deliveries and corresponding deliveries. Any final surplus depends on the link between real deliveries and the quantity transferred.

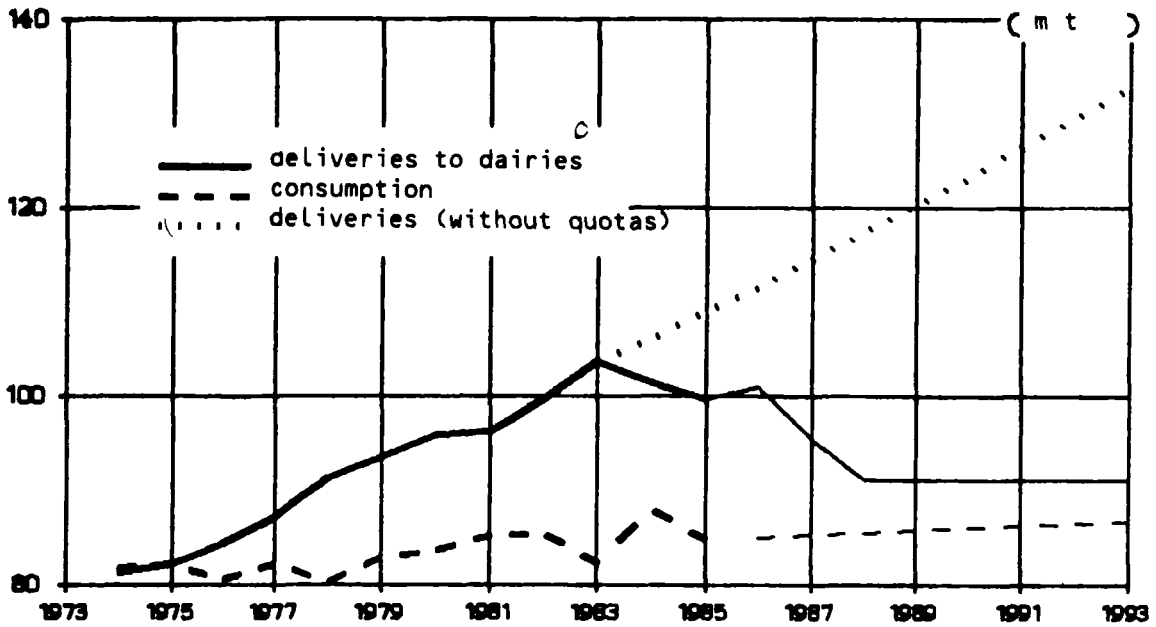
## ANNEX 4.-

EXPORTS OF DAIRY PRODUCTS AND EEC MARKET SHARE  
( '000 t )

	1979	1980	1981	1982	1983	1984	1985
<u>Butter and butteroil</u>							
• World total	820	920	860	800	715	760	820
• of which, EEC	496	593	491	400	360	380	387
• EEC share (%)	60,5	64,5	57,1	50,0	49,7	50,0	47,2
<u>Skimmed-milk powder</u>							
• World total	1.060	990	930	860	880	1.030	1.090
• of which, EEC	634	578	501	352	192	312	307
• EEC share (%)	59,8	53,9	53,9	40,9	21,8	30,3	28,2
<u>Cheeses</u>							
• World total	640	710	760	790	810	895	850
• of which, EEC	255	307	360	380	405	468	408
• EEC share (%)	39,8	43,2	47,4	48,1	50,0	52,3	48,0
<u>Whole-milk powder</u>							
• World total	580	715	710	690	600	720	760
• of which, EEC	381	524	537	458	394	495	485
• EEC share (%)	65,7	73,4	75,6	66,4	65,7	68,8	63,8
<u>Concentrated milk</u>							
• World total	675	805	800	805	725	770	770
• of which, EEC	476	561	582	601	522	521	545
• EEC share (%)	70,5	69,7	72,8	74,7	72,0	67,7	70,8

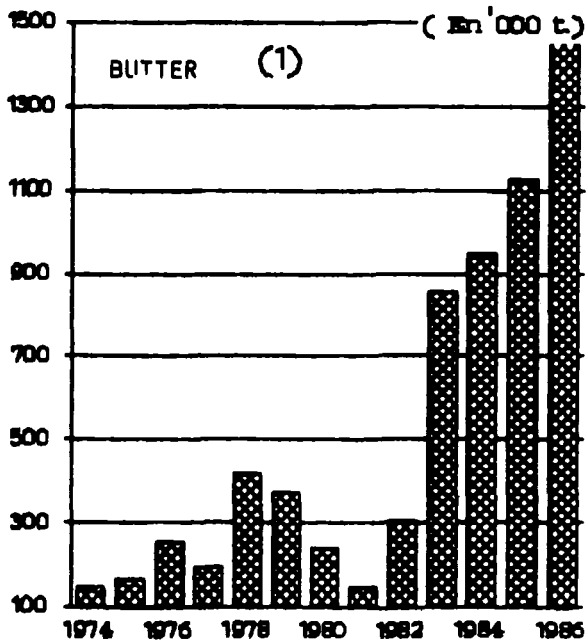
Source: 1985 Report on the "Agricultural Situation in the Community".

MILK  
DELIVERIES AND CONSUMPTION  
**EUR 10**

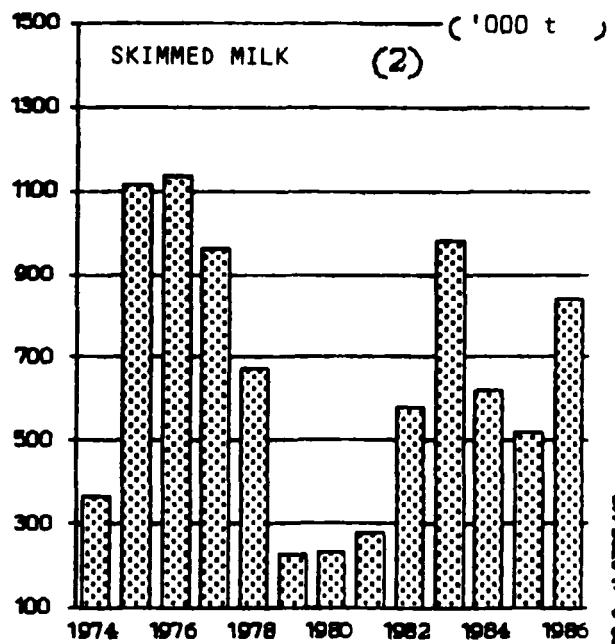


Consumption has been calculated on the basis of an overall milk balance in terms of milk equivalent (by referring to the fat content)

**Stocks**



(1): Public and private stocks at 31.12



(2): Public stocks at 31.12

EEC VI 02 April 1986 MO

## ANNEX 6.-

BUTTER AND SKIMMED-MILK POWDER STOCKS FROM 31.12.73 TO 31.12.85  
(tonnes)

		Public	B U T T E R Private	Total	SKIMMED-MILK POWDER
<u>EEC 9</u>					
31	1973	117.449	83.707	201.156	165.579
	1974	53.460	94.164	147.624	365.180
	1975	71.141	92.692	163.833	1.112.485
	1976	176.174	79.193	255.367	1.135.484
	1977	116.680	77.611	194.291	964.727
	1978	231.471	186.504	417.975	673.906
	1979	270.750	100.902	371.652	227.223
	1980	127.693	111.666	239.359	229.732
<u>EEC 10</u>					
31	1981	9.986	137.216	147.202	278.929
	1982	111.886	193.216	305.742	576.347
	1983	692.299	161.094	853.393	982.885
	1984	841.462	107.485	948.947	617.381
	1985	995.811	127.736	1.123.548	519.726
	1986 (1)	1.320.000	83.000	1.403.000	890.000

(1) Provisional.

## ANNEX 7

## BUTTER AND SMP BOUGHT IN FROM 1975 TO 1986 (EUR 10)

	B U T T E R				S M P		
	Butter bought in ('000 t)	Buying in as a percentage of production	Milk equivalent of butter bought in (m tonnes)	Butter bought in as a percentage of deliveries	SMP bought in ( '000 t)	Production ( '000 t)	SMP bought in as a percentage of production
1975	147	8,8	3,2	3,9	852	1.939	44
1976	258	14,8	5,6	6,6	616	2.004	31
1977	201	11,3	4,4	5,0	475	1.996	24
1978	345	15,0	7,5	8,2	486	2.164	22
1979	330	16,9	7,1	7,6	216	2.085	10
1980	146	7,5	3,2	3,3	166	2.081	8
1981	13	0,7	0,3	0,3	243	2.053	12
1982	150	7,3	3,2	3,2	466	2.201	21
1983	636	28,2	13,6	13,1	950	2.449	38
1984	507	24,4	10,8	10,7	390	2.068	19
1985	490	24,5	10,4	10,4	247	1.918	13
1986 (estimate)	655 (1)	31,0	13,9	13,9	602	1.950	31

The impact of the Christmas butter operation (i.e. heavier buying in) is ignored.

(1) Including 12 000 tonnes bought in in Spain.

## ANNEX 8.-

BREAKDOWN AMONG THE MEMBER STATES OF BUTTER BOUGHT IN FROM 1980 TO 1985  
WITH CORRESPONDING PERCENTAGES  
( '000 t)

MEMBER STATE	1 9 8 1		1 9 8 2		1 9 8 3		1 9 8 4		1 9 8 5	
		%		%		%		%		%
Germany	4,3	34,1	61,2	40,9	205,3	32,2	185,4	36,6	139,1	28,4
France	7,3	57,9	29,9	20,0	135,1	21,2	101,8	20,1	77,5	15,8
Italy	0		0,2		1,3	0,2	0,7	0,1	0,6	0,1
Netherlands	0,2	1,6	19,5	13,0	115,3	18,1	89,0	17,6	85,6	17,5
BLEU	0,1	0,8	2,7	1,8	21,8	3,4	16,1	3,2	10,6	2,2
United Kingdom	0,6	4,8	20,0	13,3	104,9	16,5	73,0	14,4	93,5	19,1
Ireland	0		13,4	9,0	43,0	6,7	39,9	7,9	71,9	14,7
Denmark	0		2,8	1,9	10,6	1,7	0,6	0,1	11,7	2,4
Greece	0		0		0		0		0	
EEC	12,6	100	149,7	100	637,3	100	506,5	100	490,5	100



## ANNEX 9.-

## PRODUCTION STRUCTURES

Member States	NUMBER OF DAIRY FARMS ('000)				NUMBER OF DAIRY COWS PER FARM			
	1966/67	1975	1983	1985	1966/67	1975	1983	1985
BELGIUM	140,6	74,6	48,7	44,8	7,5	13,5	20,2	21,7
GERMANY	917,3	565,8	396,9	368,9	6,4	9,5	13,9	15,1
FRANCE	1.145,3	633,8	420,4	328,7	8,2	11,9	17,2	19,8
ITALY	783,7	517,5	331,5	337,7	4,4	5,6	7,8	9,1
LUXEMBOURG	6,46	4,52	2,5	2,3	8,8	16,4	27,4	30,6
NETHERLANDS	143,7	93,7	63,5	61,3	12,1	24,1	40,3	39,4
<b>EUR 6</b>	<b>3.137,06</b>	<b>1.889,9</b>	<b>1.263,5</b>	<b>1.143,7</b>	<b>6,1</b>	<b>10,4</b>	<b>15,0</b>	<b>16,3</b>
DENMARK		63,3	35,5	31,8		17,4	28,3	28,2
IRELAND		127,5	91,4	76,8		11,6	16,7	19,9
UNITED KINGDOM		83,0	57,6	52,9		39,6	57,8	61,6
GREECE		131,5	66,2	73,4		2,8	3,2	3,0
<b>EUR 10</b>		<b>2.295,2</b>	<b>1.514,2</b>	<b>1.378,6</b>		<b>11,1</b>	<b>16,6</b>	<b>17,8</b>

Eurostat : 'Agricultural Statistical Year Book', 1986

RELEVÉ DES STOCKS SECTEUR LAITIER  
STOCK REPORT MILK SECTOR

PAYS - COUNTRY	BEURRE BUTTER					LAIT ECREME EN POUVRE SKIMMED MILK POWDER					
	STOCK PUBLIC PUBLIC STOCK			STOCK PRIVE PRIVATE STOCK		STOCK PUBLIC PUBLIC STOCK					
	PHYSIQUE - PHYSICAL		(2) DISPO- NIBLE AVAIL- ABLE	PHYSIQUE PHYSICAL	DIFFE- RENCE +/-	PHYSIQUE - PHYSICAL		(2) DISPO- NIBLE AVAIL- ABLE			
	(1) ENTREE- ENTERED (1)	SORTIE- REMOVED				(1) ENTREE- ENTERED (1)	SORTIE- REMOVED				
B	29827	-	4062	27029	-	-	2542	-	60	-	
DK	18745	-	-	13522	-	-	10805	-	50	10855	
D	273638	2792	13703	225640	-	-	745736	1258	2668	749900	
EL	-	-	-	-	-	-	3500	-	-	3500	
ESP	13761	445	-	10681	-	-	9396	1377	-	5268	
F	181605	1777	1079	142000	1278	+1278	445	-	-	445	
IRE	164079	-	700	160239	-	-	2629	-	-	2629	
I	1610	-	-	1610	-	-	-	-	-	-	
LUX	694	-	-	606	-	-	-	-	-	-	
NL	17420	-	51969	173764	75	+ 75	-	-	-	-	
P	-	-	-	-	-	-	-	-	-	-	
UK	244430	2164	2214	181634	100	+ 100	19094	-	193	16038	
CEE	120259	9178	24727	92770	1453	+1453	79347	2635	3971	75965	
CEE 9/4	126808	10938	21299	995329	-	-	20417	194483	1166	5694	765943

- tonnes -  
- tons -

PAGE PAGE	
EMMENTAL	-
GRANA PADANO	49907
PARMIGIANO REGGIANO	44574
PECORINO	-
KEFALOTYRI	-
KASSERI	-
TOTAL	96603
	(96 96936)

- (1) Quantités en entrepôts prises en charge ou non - Quantités in storage taken or not
- (2) Quantités effectivement prises en charge diminuées des quantités ayant fait l'objet d'un contrat de vente - Quantités effectively taken or reduced by quantities for which sales contracts have been concluded

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166	Milk: problem child of European agriculture	DA, DE, EN, FR, IT, NL
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168	European agriculture 1979	DA, DE, EN, FR, IT, NL
169	European agriculture into the nineteen-eighties	DA, DE, EN, FR, IT, NL
170	Agriculture and the problem of surpluses	DA, DE, EN, FR, IT, NL
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