MILK
PROBLEM CHILD
OF EUROPEAN AGRICULTURE

Text: Hector DE BAERE
Just about no other product is as familiar as milk, the first food of man and beast. Its exceptionally rich composition is unequalled by any other single product. It contains, in well-nigh ideal proportions, all the necessary substances for the growth and health of vulnerable and defenceless young life.

The consumption of milk, which of course is as old as mankind itself, is not, however, confined to that of the infant at its mother's breast, since man learnt long ago to use animals' milk too, and even to turn this into products such as butter and cheese. Thus the Old Testament refers to a Promised Land "flowing with milk and honey", and Greek and Roman writers - for example, Homer and Horace - mention the manufacture of cheese from curdled milk.

Gradually, as the breeding of domesticated animals developed into our early kinds of dairy farm, the consumption and processing of milk also increased. Livestock were increasingly selected until they became the highly productive suppliers of milk which we know today, producing quantities of milk which greatly exceed the needs of their calves. Indeed, the new-born calf is now fed by its mother's milk for only a few days before being transferred to artificial milk.

It is against this background that the European dairy farms grew, and with them the dairy industry, into a sector which now occupies pride of place in our agriculture. However, it is also a sector which is having to cope with many problems: overproduction on the one hand and, on the other, out-of-date structures, one aspect of this being that too many small farms are still producing milk in almost the same way as in grandmother's day.

Since 1968, the year in which the common dairy market proper started life, these problems have been forced gradually to the fore. The Commission has made numerous proposals and implemented a number of decisions but so far the responsible politicians have failed to develop an adequate response to needs in this area.
SUMMARY

Milk is important

Milk is often in the news. School milk, butter sold at reduced prices at Christmas time, milk powder sent to the developing countries, exports to the USSR, the butter and milk powder mountains give the milk sector a public image as the enfant terrible of the common agricultural policy.

Perhaps we are not always aware of the importance of milk production which represents about one-fifth of the value of European agricultural production.

The Community's agriculture has traditionally had a strong bias towards dairy farming; one agricultural holding in three produces milk; this involves almost exclusively family holdings, where milk production represents the major source of income, since the money which the farmer receives from the dairy to pay for the milk supplied, is in effect his wage.

Over 1 kg of milk is produced every day per head of the population. Expressed as an annual figure this represents a quantity of almost 100 million tonnes (cf. Annex I), which would equal the contents of a large lake 2 km wide, 10 km long and 5 meters deep.

The major part of this flood of milk is processed into drinking milk, butter, cheese and milk powder. In all, then, it is a very extensive and, at the same time, varied sector in which the farmer, as the raw material producer, occupies the primary position, but in which the consumer is daily offered an abundant range of hundreds of quality products (France alone boasts several hundred different types of cheese).
But how does the common organization of the market in milk operate?

This sector comes under the common agricultural policy of the European Communities and as such is based on three principles which are equally valid for other major products:

1. **Free movement of goods**
   
   A common market presupposes the unimpeded movement of goods between Member States (no frontier levies, no quantitative restrictions, etc.).

2. **Community preference**
   
   The products originating in Community territory enjoy preference over imports from non-member countries (the European price level may have to be protected by levies at the Community frontier).

3. **Financial solidarity**
   
   The costs of the policy are borne on a Community basis by a European fund (the European Agricultural Guidance and Guarantee Fund or the EAGGF).

Growing problems

Over the years the milk sector has found it increasingly difficult to market its products; about 10 to 15% of the milk production cannot be sold on the normal market. Hence special measures have to be taken in order to dispose of this surplus (usually necessitating a substantial price reduction) and curb production as far as possible. Over-production is not a new phenomenon since it started when the common organization of the market in the milk sector was set up in July 1968. Hence the expression "structural surplus": the existing production capacity generates more production than can be absorbed. Over the years this situation has cost more and more money.

The Community milk products policy now costs annually about 4,000 million ECU, i.e. about half of the total European farm budget and double the expenditure on the cereals sector which is in second place in the budget after the milk products sector. In spite of these costs, the situation has
GRAPH 1
PRODUCTION OF COW'S MILK AND HUMAN CONSUMPTION OF MILK AND MILK PRODUCTS
Eur "9"

*Whole milk equivalents (based on fat content)
never been fully brought under control. However, the policy problems involved remain very much a live issue. Indeed, hardly a day goes by without the publication in the Official Journal of the European Communities of a new Regulation or Decision affecting the milk sector.

Everyone responsible is aware that a thorough-going overhaul, which is bound to be painful in some respects, is urgently called for, because this situation of permanent imbalance may ultimately jeopardize the whole Community agricultural policy.

The remedy applied so far has proved inadequate to restore balance, and the prospects are less than cheering; the production/consumption gap is steadily widening.

STILL MANY SMALL FARMS

Nearly 2 million farms are involved in milk production in the Community. The majority of the farms are below the standards needed to ensure reasonable profit and income levels.

The average number of cows per farm is 13. But the structure of dairy farming in the European Community is extremely varied: alongside very large holdings there are many small farms operating near the subsistence level. A table is given in Annex II of farms, broken down according to the size of the dairy herd. It shows that 57% of farms keep less than 10 cows while, on the other hand, only 3% of dairy farmers own more than 50 cows. If one were to regard 30 dairy cows as the minimum standard for a profit-making dairy holding, it will be found that only 10% of holdings meet this requirement but produce 40% of the total quantity of milk in the Community.

The majority of small dairy holdings are of too small an area with the result that they are compelled to aim for a high labour income per hectare, since the holding is not suitable for more extensive types of farming such as arable cropping or the raising of beef cattle.
This lack of an alternative effectively condemns these holdings, consisting mainly of grassland and fodder crops, to milk production.

This being so, it follows that the dairy farming problem in the Community is a social problem as well as an economic one.

In the last decade 1 500 000 farms stopped producing milk. Between 1973 and 1977 the number of dairy farmers fell by about 20% or roughly 500 000 holdings. This was despite the unfavourable economic climate in which high rates of unemployment make it difficult for farmers to move to other sectors of the economy. It thus appears that this structural trend will continue, albeit at a slower pace.

But a well-devised structural policy at the European level should encourage the necessary adjustments.

Increasingly efficient farms with large herds call for substantial capital investment: modern cubicles, highly automated milking systems, tanks for the bulk storage and cooling of milk, rational fodder production and feeding, etc. The heavy investment and depreciation costs oblige the farmer with a large herd to make the maximum use of his holding by obtaining higher yields per cow and this is an incentive to produce as much milk as possible.

The conclusion is that both the larger farms (heavy financing costs) and the smaller ones (maximum labour income per hectare) have every incentive to produce as much milk as possible. And in view of the unlimited guarantee regardless of the quantity produced – there is in effect no curb on milk production.

MORE MILK PER COW

The European cow is yielding ever-increasing quantities of milk: the annual average increase is almost 100 litres per cow.
GRAPH 2
MILK COLLECTIONS BY REGIONS OF THE EEC, AVERAGE 1974 - 1976 1)

1) Italy 1973 - 1975
This increase in yield is due mainly to the widespread consumption of compound feeding stuffs, to the modern milking parlours and to efficient cattle selection and disease control measures.

The total dairy herd has stabilized over the last ten years at around 25 million head (Annex III).

The increase in aggregate milk production cannot therefore be ascribed to an increase in the number of cows but to the continuing increase in milk yields. Since 1960 the average annual increase in yields has been 1.5%. Over the last few years, however, the increase has actually gathered momentum and since 1975 has been almost 3%.

The average European cow therefore produces annually around 4 000 kg of milk as against an average of 2 400 kg in 1950, 3 000 kg in 1960 and 3 400 kg in 1970. But considerable differences still exist, not only between the Member States (Annex IV), but also within the regions of individual countries.

The factors, abovementioned, making for the increased milk yield per cow may be described as follows:

- better stock selection: including the use of artificial insemination, which now accounts for more than half the pregnancies and whose object is to develop milk production qualities in the animals bred;

- efficient disease control measures: tuberculosis and brucellosis, two diseases which have for a long time been the scourge of dairy cattle, have been successfully eradicated;

- modern accommodation and equipment: the advent of a new type of cubicle - usually equipped with manure removal scrapers and the use of herring-bone parlours, may roughly be compared with the advent of the combine harvester and the tractor, which also ushered in a minor revolution. Mechanical milking has almost completely replaced milking by hand. Thus there is a greater number of cows per labour unit;

- improved care of the cattle and better feed increases production per cow;
- more rational production and use of green fodder, new production
techniques and types of rough fodder and better storage in silos. The
increased use of fertilizers is also boosting grass production;
- lastly, the extensive use of fodder concentrate. The milk producer has
in fact at his disposal unlimited quantities of fodder from outside the
farm. It is estimated that a good 20% of milk production originates from
imported fodders which are processed into fodder concentrates; the milk/
fodder concentrate price relationship is very favourable and has
inevitably led to steadily increasing consumption of this fodder. It is
generally assumed that 1 kg of fodder concentrate produces at least
2 litres of milk. However, the price of 1 kg of fodder concentrate is
usually appreciably lower than the price of 1 litre of milk, so that
high use in rations can bring more income for the farmer.

The use of cubicles, allied to the supplying of fodder concentrate,
illustrates the recent and dramatic change which has come over the
agricultural sector. The traditional farm holding, as an independent and
self-reliant unit, is being ousted by a specialized holding where
"feed conversion farming" or "factory farming" is carried out.
Imported feedingstuffs are converted into milk. Some have gone so far as
to suggest that shortly the cow would disappear from our countryside to be
kept in housing day and night, during summer and winter ("zero grazing").
The grass and green fodder ration, whether or not produced on the farm, is
no longer grazed and is supplemented by fodder concentrate. The
Netherlands is in the forefront of this trend: almost half of the cow herd
is said to be already housed in cubicles and almost 40% of the milk yield is
said to come from fodder concentrate. In this country, where the grass and
grazing area constitutes barely 2.5% of the corresponding Community area,
about 11% of the Community's milk is produced. It may therefore fairly be
claimed that a large proportion of our cows are "grazing" in North (and
South) America, where the raw materials for our mixed fodders are produced,
more than in the European grazing areas themselves.

This tendency towards specialization in intensive farms, roughly similar to
GRAPH 3
MILK PRODUCTION IN THE COMMUNITY
(1960-1985)

Number of dairy cows

Production per dairy cow

Total milk production
developments on pig and chicken holdings, is of course a development which makes for more profitable farming. But it unavoidably entails an intensification of milk production which is at the root of the milk surplus.

**FEWER AND FEWER DAIRIES ARE PROCESSING MORE AND MORE MILK**

Twenty years ago deliveries to dairies represented only 60% of total production. Dairies now receive about 90% of the milk produced in the Community. This percentage is continuing to rise since, because of the labour involved, processing at the farm (farmhouse butter and cheese) is dying out.

The milk products industry, downstream from dairy farming, has become highly concentrated and is now part and parcel of the industrial sector. The process of concentration was particularly rapid in the sixties, the decade of general economic growth. Since 1965 the number of dairies has fallen by about half while in the meantime the supply of milk has risen by about 30%. This tendency for units of production to expand and merge - characteristic of European integration - applies strongly in the dairy industry and has resulted in marked improvements in productivity and the level of modernisation.

The disadvantage of this concentration process is that milk processing has developed into a specialized industrial process no longer comparable with the earlier traditional methods used in the village dairy or on the farm. Even marketing has been taken over by a specialized distribution sector so that the farmers' role is becoming increasingly restricted to supplying the raw material. This structural development is in part responsible for the development of surplus in the dairy sector: the dairies can process the milk supplied more efficiently than at the farm. The skimmed milk, a by-product of butter making, is generally turned into skimmed milk powder at the dairy whereas, at the farm, skimmed milk is usually put to direct use as animal feed.
CONSUMPTION AT A STANDSTILL

Overall consumption of milk and milk products remains roughly constant. Within the total range of products, however, there are products whose consumption is steadily increasing (fresh cream, cheese) and other products whose consumption is declining (butter).

Consumers have a wide range of products to choose from in the dairy sector.

Consumer habits differ markedly from country to country. Expressed in milk units (the so-called milk equivalent) the Irish are the leading consumers, mainly in the form of drinking milk and butter, while consumption of cheese is very low. Annex V shows the pattern of consumption in the various Member States.

Second to Ireland comes the United Kingdom; the roughly identical pattern is apparent here, namely, relatively high consumption of drinking milk and low consumption of cheese. The highest cheese consumption is in France (six times as high as in Ireland).

The Italian consumer comes at the bottom of this league table; although he is a great cheese lover - and here yields pride of place only to France - he drinks very little milk and spreads very little butter (fat consumption is restricted mainly to olive oil).

Finally it is remarkable that in the Netherlands, the dairy farming country par excellence, the consumption of butter is almost as low as in Italy.

THE SURPLUSES

The butter and milk powder "mountains", which represent for the Community authorities one of their most formidable problems, demand very great financial sacrifices. How do these stocks arise?

There is a limit to how much milk can be processed for sale as drinking milk,
cheese, etc., given by the level of market demand for these products, additional milk then has to be processed by dairies into butter and skimmed milk powder. These are the intervention products (1).

The main components of milk, namely the fat and the proteins (with milk sugar) are refined into products that can be stored, i.e. butter and skimmed milk powder. Both these products may now be delivered at any time to the national intervention agencies, provided that certain quality and packing requirements are complied with. These agencies are official bodies and are obliged to buy in these unmarketable surpluses at the “intervention price”. This price is a minimum price which prevents market prices from collapsing. This system is very favourable not only for the dairy farmer but also for the dairy which can always be sure of a minimum return on its processed products. Assured of this return, the dairy is in a position to pay the farmer a definite minimum price for the milk supplied; however much the farmer produces, he need not worry about disposing of it and receives — through the application of the intervention prices — a guaranteed income for every litre of milk.

Over the years production has increased so much that at present the structural surpluses account for some 10 to 15% of total production. This corresponds, at the current milk yield per cow, to the milk provided by about 2.5 to 3.5 million cows.

The disposal problem is thus the problem of disposing of surplus butter and skimmed milk powder (a table showing how stocks have developed is in Annex VI). The supply of other milk products can be related exactly to demand, and all the milk surpluses are processed into products which can be offered to intervention. The subsequent marketing of the stocks, thus constituted, gives rise to expenditure which can amount to about 80% of the value of the products.

(1) Under certain conditions intervention also exists for certain Italian cheeses, such as Granapadano and Parmesan. However, there have seldom been serious problems on this market.
A. Butter

For ten years butter consumption in the Community has continued to fall despite the relative price reduction of butter compared with other dairy and agricultural products. An unfavourable price relationship with other fats, in particular margarine, is one of the major causes of this falling off in consumption. Margarine is obtained from oils which are imported duty-free or with a very low tariff. The Commission has repeatedly proposed that a proper levy be imposed on imports of these oils but so far this proposal has not been approved by the Council of Agricultural Ministers.

The exceptionally persuasive advertising on behalf of the margarine industry, with the accent on the health aspect, has also had a detrimental effect on butter consumption, although many medical and scientific experts question the soundness of the health argument.

Constantly increasing production and stagnating — indeed falling — consumption have led to about 300,000 to 400,000 tonnes of butter per year (about 20% of the total production) having to be disposed of at very low prices in recent years.

Thanks to these special measures it has been possible to hold butter stocks at more or less acceptable levels.

These measures are implemented on the world market as well as within the Community. Disposal within the Community is directed at certain sectors where fats other than butter fat are used. The price reduction can amount to as much as 70% of the normal price since in comparison with other fats butter is an expensive product.

Cheap butter goes mainly to the food industries (bread, pastries, biscuits, ice-cream), but also to the armed forces, non-profit making concerns and welfare categories.
GRAPH 4
PRODUCTION AND CONSUMPTION OF BUTTER IN THE COMMUNITY
(1960-1985)

Total consumption
Production
Consumption against market prices
SPECIAL MEASURES
In some Member States (United Kingdom, Ireland, Denmark and Luxembourg) a consumer subsidy is also given; this represents a direct reduction in the price of butter, borne by the authorities (national and Community) with a view to promoting butter consumption. In June 1979 the Council of Agricultural Ministers strengthened this measure by increasing the financial contribution of the Community to 75% of the assistance allocated, with a maximum, however, of 50 ECU/100 kg (which corresponds to almost 15% of the retail price). The so-called "Christmas butter" sales at a reduced price provide an additional stimulus to the consumption of butter during a period of great demand, since the price reduction can range from 25 to 50% of the retail price (90 to 150 ECU/100 kg).

Outside the Community disposal is promoted by the granting of an export refund, and as for other dairy products and many other agricultural products, this refund covers the price difference between the internal market and the world market.

In addition, since 1970, the Community has implemented substantial food aid programme based on butter oil (concentrated butter fat: an easily stored product which is highly valued in the developing countries). The volume of this aid, given free of charge, amounts, expressed in butter equivalent, to about 55 000 tonnes per year, i.e. about 30% of normal exports. This quantity will be raised to about 67 000 tonnes per year.

B. Skimmed-milk powder

Whenever in recent years there has been talk of "mountains" in the agricultural sector, the reference has, as often as not, been to skimmed-milk powder. In 1976 a peak was reached of about 1 400 000 tonnes, i.e. around 75% of a normal year's production.

In addition to steadily increasing milk production, the surplus is attributable, in particular, to the relatively low prices of competing proteins. Skimmed milk and skimmed-milk powder are mainly used as animal
feed but their replacement by cheaper sources of protein is steadily increasing. Skimmed milk is used less and less as a food in liquid form. Instead it is processed into powder which is used in the main (about 60% of production) as calf feed. Despite assistance of around 45% of the market price, it has not been possible to step up disposals in this form. Scope for sales on the world market also remain limited for similar reasons (over-supply and substitute products at low prices), with the result that costly measures have to be taken in order to dispose of the surpluses on the internal market. Since 1976, skimmed-milk powder has therefore been sold for processing into compound feedingstuffs for pigs and poultry. Thus each year a quantity of about 600 000 tonnes (30% of annual production) has been sold at a price which represents at most 20% of the buying-in price by the intervention agencies. However, this measure was suspended at the end of 1979.

Sales of skimmed-milk powder as food aid have increased appreciably and now stand at around 150 000 tonnes per year. Skimmed-milk powder is supplied (in the same way as butter oil) both via international organizations (World Food Aid Programme, Red Cross, UNICEF) and by means of direct, bilateral grants of aid (Asian countries such as India, Bangladesh and Pakistan number among the main beneficiaries).

It is difficult to increase food aid in the form of skimmed-milk powder, despite all its advantages, on account of the transport problems and the risk of waste which derive from insufficient transport infrastructure and distribution networks in a number of recipient countries. It is for these reasons that the Community's food aid programme often falls behind schedule.

RATIONALIZATION POLICY

Despite the action taken over-production persists. The annual increase in the supply of milk is estimated at 2%, whereas the most one can hope for from demand is its maintenance at present levels.
The future of the European milk-products market is less than rosy.

The Commission considers it one of its primary tasks to overcome this persistent structural disequilibrium. On several occasions it has submitted proposals for rationalization to the Council of Agricultural Ministers. The disproportionately heavy budgetary burden involved in supporting this market may jeopardize the entire common agricultural policy.

A large number of reports, meetings, even congresses have already been devoted to the problem of rationalizing the milk products market. Numerous measures have already been taken at Community level but the Commission's main proposals have not been adopted. The broad lines of what could be a rationalization policy are described below. But the scope for rationalization is limited by a number of obstacles i.e. a restricted market and structural factors which may be summarized as follows:

- the existence of a large number of small dairy farms; a good half of these keep less than 10 cows and are often situated in areas where there is no scope for other lines of production; a fall in income for these farmers would inevitably bring them down to the minimum subsistence level, if not below it.

- the unfavourable price relationship between, on the one hand, milk fat and milk protein and, on the other, vegetable fat and vegetable protein; the latter two substitute products compete with milk products both for human consumption (margarine is ousting butter) and animal consumption (soya flour versus skimmed-milk powder).

- The world market offers only limited outlets and is well supplied. Overproduction is, moreover, not a strictly Community phenomenon since other countries, too, regularly have to dispose of milk surpluses on the world market. The result is generally very low price levels. Only marginal quantities can be disposed of on the world market compared with the Community market. For example the amount of cheese sold on the world market represents only 7% of Community production.
- the high rate of unemployment in the EEC creates special difficulties.

The manpower forced out of farming by insufficient income is unlikely to find work in the secondary sector (industry) or tertiary sector (services, distribution, etc.) and could thus swell the ranks of the unemployed. Opportunities for conversion to other kinds of farming are fairly limited and are difficult for smaller holdings to finance.

With these factors in mind, the Commission is promoting a rationalization policy designed to influence both demand and supply.

**Measures concerning supply**

A curb must be put on production which creates increasingly larger surpluses. For this purpose the Commission is not in favour of direct measures, such as quota arrangements, i.e. the application of a system whereby the farm (or possibly the dairy, or even the Member State) may not produce more than a given amount. This method would probably have an immediate effect but is difficult to reconcile with the principle of the freedom of farming and free trade between the Member States. The development and more advanced specialization of certain areas which, for reasons dictated by nature, are predisposed to milk production, would be curbed. The same applies to dairy holdings which are expanding. A quota system would ultimately have the effect of fossilizing structures in a sector where the adaptation and expansion of farms remains a priority need and where structures must be kept flexible.

Agreement on the level of these quotas and their allocation would be very difficult to reach and even more difficult to alter subsequently. Moreover they offer no real solution to the problem of the structural surplus.

There are various ways in which production might be curbed.

1. **Prices policy**

   We have already explained that the price that the dairy farmer receives is directly fixed by the Community authorities (the Council on a proposal from the Commission). These prices, especially the intervention prices,
are fixed at the now traditional agriculture marathon, usually in March.

On no other agricultural markets has the Community prices policy had such a direct influence as on the milk products market. In this market, where supply nearly always exceeds demand it is the intervention price which in the end decides what is paid to the producer for milk. The prices which the market pays more or less tally with this intervention price. Consequently, if balance on the milk and milk products market is to be restored, the Commission is convinced that a cautious price policy is a basic requirement.

Over the last decade the price level for milk has been very attractive since it has been guaranteed by the intervention system which absorbs all surpluses.

The price policy must curb this development, and discourage unlimited milk production. It was for this reason that in 1979 the Council of Ministers did not grant any price increase in the milk sector.

Concurrently with a cautious prices policy, the Commission wishes to retain another scheme which also directly influences income from milk production, namely:

2. The co-responsibility levy

Since September 1977, the milk producer has had to make a contribution in the form of a percentage of the price of milk. In other words he pays a proportion of his milk income (hitherto a maximum of 1.5% of the target price) into a special fund, to be used for promoting and expanding the outlets for milk products. The use of this fund is decided by the Commission following consultation of the producer groups. Milk producers are thus made responsible by being directly involved in the prices policy.

So far, the levy has represented not much more than a token contribution, with no effect on actual milk production, and it has been partly
cushioned by the rise in milk prices. However, it is the Commission's intention to extend this levy system into an effective policy instrument.

Farmers who produce under difficult circumstances (especially in upland areas) are exempt from the levy. Consideration has also been given to the question whether and to what extent small-scale dairy farmers unable to convert and producing their own fodder should be exempted from it as well. The argument is that the current price of milk is barely adequate for these farmers while the better-structured holdings can make a very good living out of milk production.

In this way the income of the small farmers could be better protected and, at the same time, a preferential distinction could be made in favour of milk produced from home-grown fodder as against milk deriving from purchased (i.e. largely imported) fodder.

The proceeds of this co-responsibility levy go to stimulate consumption and to promote outlets for milk products so far as this is possible. It thus becomes a feature of intervention policy in this sector and will save budget funds.

3. System of premiums for non-delivery and conversion

This measure has already been applied on more than one occasion in the past and represents an essential element in the rationalization policy.

The volume of milk production is determined not only by the nature and quantity of the feedingstuffs used but also by the size of the herd.

For this reason a two-fold effort is being made to reduce the number of dairy cows:
- firstly, by means of the non-marketing premium: dairy farmers who undertake to use the milk they produce on their own farms for animal feeding or to have the dairy cows slaughtered, receive a premium, the amount of which varies according to the quantity of milk thus withdrawn from the market. In practice it tends in fact to be a slaughtering premium; the cessation of dairy farming, especially by elderly farmers, is speeded up by this means.

- secondly, by means of the conversion premium: farmers who wish to convert from dairy farming to the rearing of meat animals can qualify for this premium.

The implementing procedures for the two schemes have been carefully worked out, with the goal of preventing the productive capacity released by the scheme (for example, pastures and the area producing green fodder) being used again subsequently for dairy farming.

4. Suspension of investment aid

The efforts being made to restore balance must not be negated by measures which, directly or indirectly, stimulate production. Thus the Commission feels that government assistance for investment in the milk sector must be temporarily suspended, unless the aid offered is for investment for the creating or development of new products, for the promotion of new sales outlets, for the saving of fuel or for environmental protection.

Measures with regard to demand

Consumption of dairy products is tending to stabilize. Demand for the dairy sector's products - as also for other foodstuffs - is dependent on the food needs of a population which is barely on the increase.

The consumption of milk products can, however, be stimulated. By this means our dependence on imports will diminish in respect of products which are substitutes for dairy products (e.g. margarine, certain feedingstuffs).
The basic importance of milk as an ingredient of human nutrition is undisputed.

This being so, the consumption of milk and butter should be encouraged by means of subsidies.

- In the well known form of "school milk". By means of this measure it is hoped to instil in the young consumer good nutritional habits. Milk is a drink which is very suitable for consumption especially among children who tend to rush out in the morning without a proper breakfast, and therefore it covers a real bodily need. This aid has been steadily increased and now completely covers the price of the raw material.

- Aid is also granted for the direct consumption of butter (in small packs), as explained above, and the proportion which must be financed out of national funds has steadily contracted, while the contribution from European funds has correspondingly increased.

- With a view to promoting the sale of butter to certain sectors of the food industry (bread, pastries, biscuits, ice-cream), the price has been reduced to make it more competitive with other fats. The Commission wishes to make an even greater effort in this field.

- In addition to existing measures to promote outlets in the animal feeding-stuffs market, the Commission is striving to bring about a greater use of skimmed milk at the farm. This is a way of preventing the product from being processed into skimmed-milk powder, the manufacture of which requires a great deal of fuel (evaporation of almost 90% water) and most of which is then offered to intervention.

If the aid is increased, the product becomes more competitive with vegetable proteins, especially as the nutritional value of this skimmed milk is higher. Nonetheless this subsidy is too costly to be developed into a regular policy.
NEW MEMBER STATES

The European Community has the prospect of receiving three new Member States: Greece becomes a member of 1 January 1981, Spain and Portugal have applied for membership. Milk production in these countries—which have a total population of around 53 million people or 20% of the present Community—represents only about 8.5% of the milk production in the EEC. As net importers of milk products, these countries could help to reduce the surpluses, but their consumer habits are much less attuned to milk products. Their need for imports is thus limited and is in fact already largely covered by the present Community.
## Annex I

**MILK PRODUCTION IN THE COMMUNITY**

('000 tonnes)

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<td>3 858</td>
<td>4 151</td>
<td>4 700</td>
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<td>4 918</td>
<td>5 045</td>
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<td>91 276</td>
<td>91 707</td>
<td>93 528</td>
<td>96 049</td>
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**Source**: EUROSTAT
Annex II

Breakdown of dairy holdings in the EEC by dairy herd size (December 1977) '000 units

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<th>Member State</th>
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<th>% of total</th>
<th>No of holdings</th>
<th>% of total</th>
<th>No of holdings</th>
<th>% of total</th>
<th>No of holdings</th>
<th>% of total</th>
<th>No of holdings</th>
<th>% of total</th>
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<td>87.9</td>
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<td>50</td>
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<td>75</td>
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<td>75</td>
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<td>16.7</td>
<td>22</td>
<td>30.1</td>
<td>32</td>
<td>44.4</td>
<td>48</td>
<td>66.7</td>
<td>24</td>
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<td>58.3</td>
<td>94</td>
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<td>44</td>
<td>78.6</td>
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<td>5.4</td>
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<td>1 570</td>
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<td>96.9</td>
<td>61</td>
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Source: EUROSTAT
### Annex III

**DEVELOPMENT OF THE COMMUNITY'S DAIRY CATTLE HERD**

(as at December of the previous year)

<table>
<thead>
<tr>
<th></th>
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<td>73</td>
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<td>66</td>
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<td>1,102</td>
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**Source:** EUROSTAT
Annex IV

Development of average milk yield per cow in the Community since 1974

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<td>4 352</td>
<td>4 561</td>
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<td>3 296</td>
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<td>4 777</td>
<td>4 830</td>
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<td>3 840</td>
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(1) Provisional

Source: EUROSTAT
### Annex V

**Consumption of milk products per Member State (1976)**

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<th>Member State</th>
<th>Drinking milk</th>
<th>Cream</th>
<th>Butter</th>
<th>Cheese</th>
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<td>1 000 ton: kg/head</td>
<td>1 000 ton: kg/head</td>
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<td>37</td>
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<td>Belgium and Luxembourg</td>
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<td>149.3</td>
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*Source: EUROSTAT*
### Annex VI

**Public Stocks at 31 December**

**Butter**

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**Skimmed milk powder**

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Source: EEC Commission DG VI