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**Restoring balance on
the milk market**

Action programme
1977-1980

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Supplement 10/76

Action programme
(1977-80)
for the progressive achievement
of balance in the milk market

(Presented by the Commission
to the Council on 9 July 1976)

Commission of the
EUROPEAN COMMUNITIES

Supplements 1976

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Summary

At its 386th meeting held from 2 to 6 March 1976 the Council, on a proposal from the Commission, undertook to take a decision, before 31 July 1976, on the implementation of a system of non-marketing premiums for milk. It also called upon the Commission to present proposals to it with a view to introducing a system of financial participation by milk producers and it agreed to take a decision on the matter before 1 September 1976 so that the system could be applied from the beginning of the 1977/78 milk year.

Faced with a serious and persistent imbalance in the milk market—an imbalance which will worsen considerably if current trends persist—the Commission is proposing an action programme spread over several years (1977-80). This programme covers all possible fields of action including a system of financial participation by milk producers. The simultaneous and energetic implementation of all the proposed measures should ensure the progressive achievement of balance in the milk market.

On the basis of the considerations outlined in this communication the Commission considers that at its meeting on 19, 20 and 21 July the Council should debate the action programme 1977-80 in detail. An amended proposal is at present before the Council concerning the Community system of premiums for the non-marketing of milk and conversion of dairy herds. The formal proposals relating to other features of the action programme will be transmitted to the Council and the European Parliament once the effects of the current drought can be assessed in greater detail.

The situation in the milk market

1. 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.

2. In its proposal on the fixing of prices for certain agricultural products and on certain related measures the Commission has already analysed the situation in the milk and milk sectors.¹ For that reason it confines itself here to certain amplifications.

3. 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.

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

— butter fats versus vegetable fats imported at zero duty (oilseeds) or at a 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.

Production

5. Long term Community milk production¹ is increasing by about 1.7 % per year (1960-75). This steady and considerable increase does not reflect an increase in the number of dairy cows;² their number is falling slightly in the long term and stands at about 25 million.

On the contrary, the increase in milk production is due to the steady growth in yields.³ Average yield per dairy cow is rising by about 1.4 % per year. It increased from 3.083 kg in 1960 to 3.403 kg in 1968 and 3.637 kg in 1975. The average yield per cow varies greatly from region to region. At present it exceeds 4 600 kg per cow in the best region. There are many reasons for this, such as the improved herds, the more efficient use of fodder, and the massive use of compound feedingstuffs of high nutritional value.

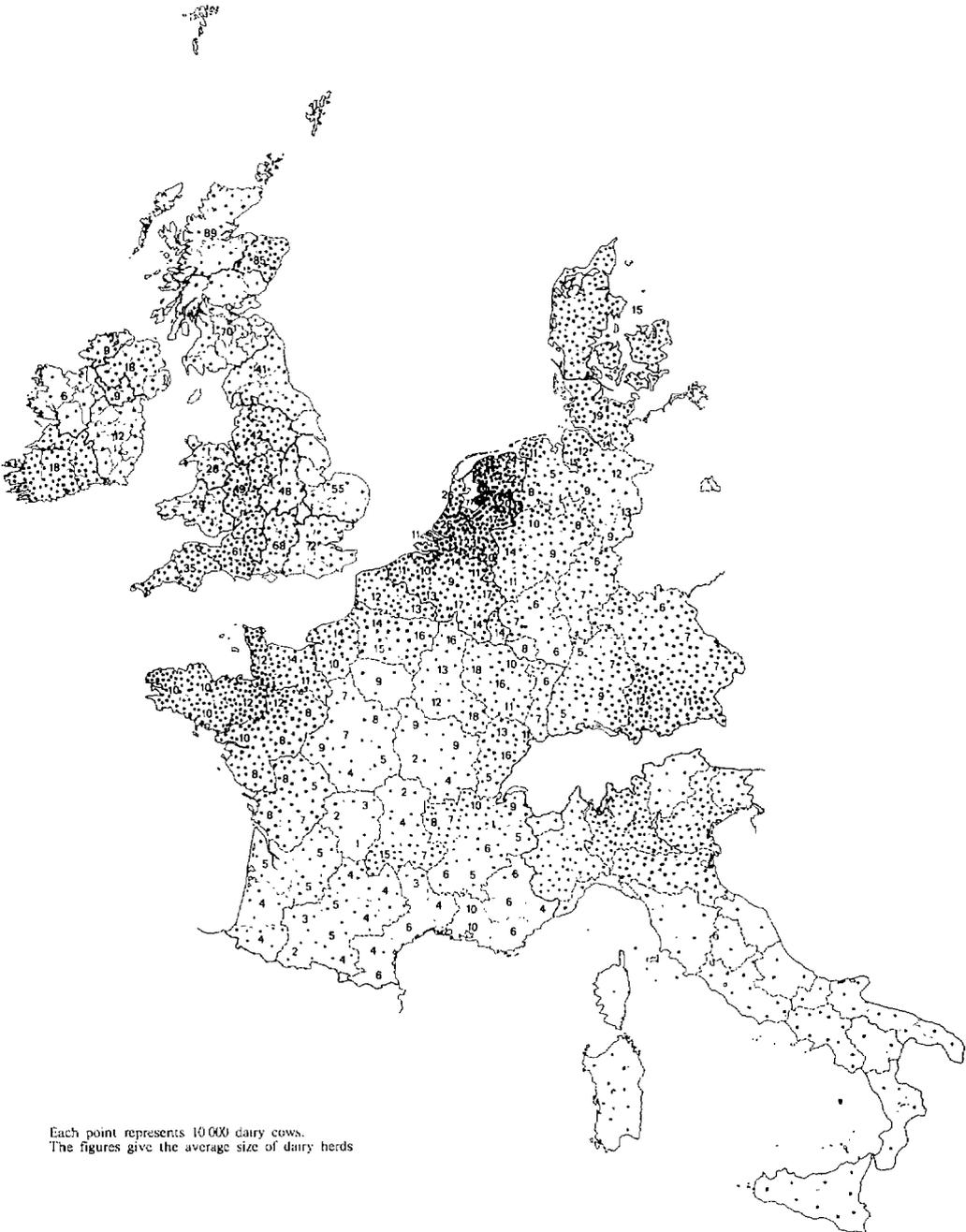
6. An increasing quantity of the milk produced is marketed through dairies (84.9 % in 1968 and 88.9 % in 1975). Deliveries to dairies have increased by nearly 10 million tons between 1968 and 1975. About one third of this increase can be explained by the yield increase and the remaining two-thirds by the progressive abandonment of the practice of suckling calves on farms and certain other structural changes.

¹ See Bull. EC 12-1975, points 1404 and 1405; the Agricultural Situation in the Community, 1975 Report (published in conjunction with the Ninth General Report), points 85 to 111 and 403; Ninth General Report, point 285.

² See Graph 3.

³ See Graph 2.

Graph 1 — Milk cow numbers and average dairy herd size in the different regions of the EEC (1973)¹



¹ For Italy, 1974.

7. These structural changes have been profound for both the dairy farms and dairies. They vary appreciably from region to region. Dairy herds and milk production tend to concentrate in regions with adequate rainfall suited to grass-growing.¹

8. Cheap capital—made available to the dairy sector by public authorities—has stimulated the modernization of both dairy farms and dairies.

It is difficult to ascertain the precise impact of national aid granted directly or indirectly to the dairy sector. But out of the total spent on agriculture by the Member States (more than 5 000 million u.a. in addition to social expenditure in 1975) it can be estimated that a substantial sum goes to the dairy sector (which covers more than 40 % of holdings).

The Community has directed most of its aid at dairies. Between 1964 and 1975, the EAGGF Guidance Section financed almost 600 dairy projects representing a total investment of almost 1 000 million u.a. On the other hand because of its late implementation, the common structural policy has so far only had an appreciable effect on the dairy sector in certain regions of the Community.

However, it be noted that the Community has generally tried to modernize the sector without creating new productive capacity. Member States on the other hand have often pursued expansionist objectives with more evident effects on capacity.

Consumption

9. Human consumption of milk and milk products expressed in whole milk equivalent and at the market price² has remained more or less constant for a certain number of years. However, many changes have taken place in the patterns of use of the various milk products.

10. The *per capita* consumption of butter has dropped although the price of butter has decreased relatively to the price of other milk and agricultural products, and in spite of a prices pol-

icy designed to keep the price of butter unchanged in money terms. Under the effects of an unfavourable price relationship and of consumer reactions connected with health concepts, butter consumption is showing a much greater downturn than margarine. Furthermore the United Kingdom butter market, which is one of the most important consumer markets in the Community, is losing some of its attraction due to the gradual alignment of prices, in spite of the existence of consumer subsidies.

11. The consumption of drinking milk and fresh products has remained relatively constant, but recently it has shown a downward trend which risks becoming structural rather than cyclical. Only cream is still an expanding market, whereas all other fresh products, including yoghurt, are falling back further under pressure from competitive products, particularly non-alcoholic drinks.

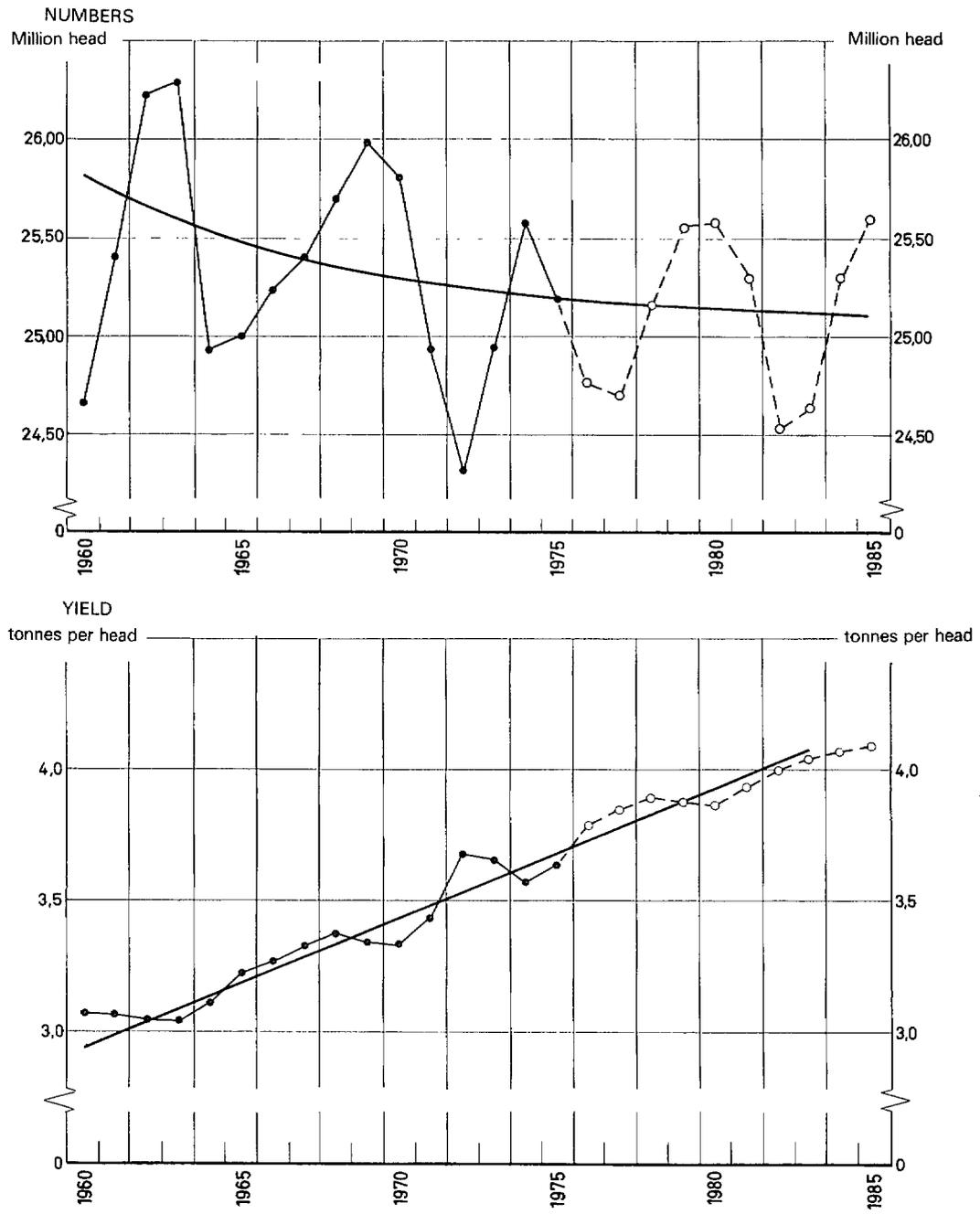
12. On the other hand, cheese consumption per capita has increased sharply, in spite of the relative increase in the price of cheese in comparison with other dairy products. Consumption has gone from 7.2 kg per capita in 1960 to 9.6 kg in 1970 and 10.7 kg in 1975. Cheese is the only milk product which is still an expanding market, both within the Community and outside it. It is also the only milk product which is not subject to permanent and aggressive competition from competing products (for example: butter—margarine; fresh products—non-alcoholic drinks). Cheese production, by its diversity, is much more adaptable than other milk products to consumer requirements in respect of quality and taste.

13. But one of the most significant developments in the last ten years has been of factory manufactured skimmed-milk powder in place of liquid skimmed milk has accelerated. In view of the difficulties of finding outlets for this product under present trading conditions, on the internal and international markets alike, stocks of skimmed-milk powder have speedily accumulat-

¹ See Graph 1.

² See Graph 3.

Graph 2 — Dairy cow numbers and milk yield per head in the community of nine 1960-85



ed until in June 1976 they exceeded 1.3 million tonnes. This situation is not unconnected with the constant increase in the price of skimmed-milk powder which developed following a systematic policy of lower butter prices.

Nor is it unconnected with considerable technical progress, with the profound structural changes which have taken place in milk collection from the farm (on-farm tanks and collection by tanker lorries) and with the expansion of dairy capacity for skimmed-milk powder production—capacity which has increased almost tenfold in ten years.

Market imbalance in the past

14. Analysis of the situation over the past few years reveals a persistent structural surplus. This results from an over-supply—a supply that is still increasing by an average of 1.7% a year—together with an almost stagnant consumption. This persistent surplus has existed since 1968 and explains why the community is confronted by recurring and serious crises in the milk sector. These crises have caused the community to take measures both to reduce supply (price freeze 1969/70 and 1970/71—slaughter—conversion) and to find additional outlets for the sale of milk products. The extent of the structural surplus of the past can be measured by the following two indicators:

First, 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. Second, expenditure of the Guarantee Section in the dairy sector went from about 600 million u.a. in 1968/69 to 1.521 million u.a. in 1973 and some 1 900 million u.a. has been earmarked for 1976.

15. The enlargement of the Community in 1973 did not bring with it substantial changes in the balance between supply and demand on the milk market. The three new Member States have a milk production potential proportionate to that of the original Community. But their high *per capita* consumption of drinking milk results in their being in deficit in respect of butter and cheese, and this has changed the marked situation of these products since accession.

The application of the Community price level and Community guarantee to the three new Member States is influencing their dairy production potential, which in general is already favoured by good production structures.

The present market imbalance

16. Community milk production from 25.2 million dairy cows stood at some 91.7 million tonnes in 1975 (91.3 million tonnes in 1974). Alongside this rise in production, human consumption of milk products, showing a slight drop, stood at the equivalent of 85.4 million tonnes of milk. Milk deliveries to dairies stood at 81.5 million tonnes against 80.9 million tonnes in 1974. At the end of the year, butter stocks were at 164 000 tonnes and those of skimmed-milk powder at 1.1 milliard tonnes.

17. Since the beginning of the 1976/77 marketing year a drought which everybody agrees is exceptional is affecting many of the agricultural areas in the Community. It is too soon to assess its impact on milk production. Milk collection increased by 5% in the first six months of 1976. However, a considerable drop in milk production is expected for the second half-year.

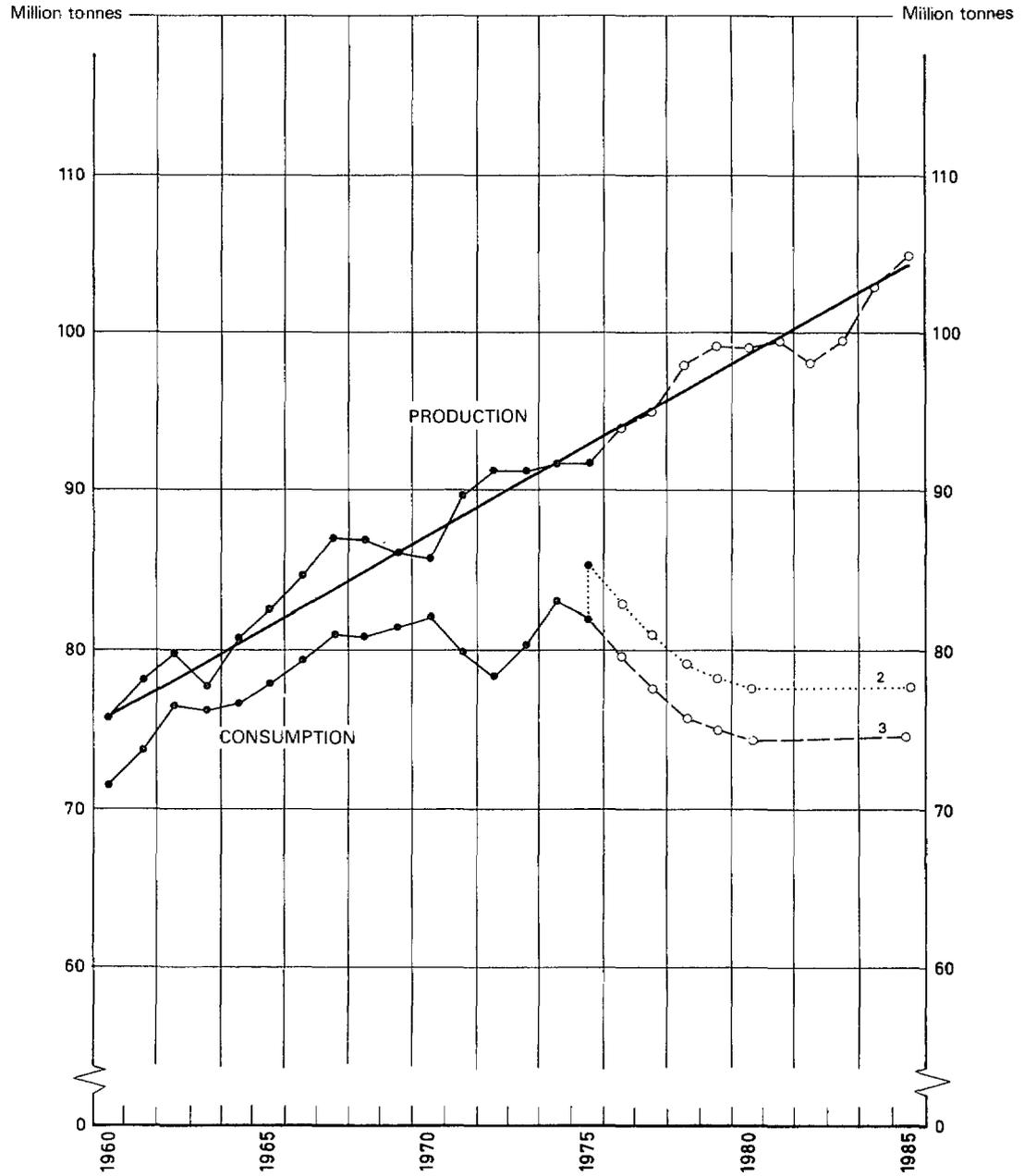
18. This structural imbalance between supply and demand is not peculiar to the dairy sector of the Community; similar crises exist in non-member countries which traditionally play an important role in international milk product trade.

In 1975 the world dairy products market changed significantly to one of declining consumption and imports and rising production and stocks. The rise in dairy production is due principally to favourable climatic conditions in most producing areas of the world and to an improvement in the price relationships between milk and cattle feed.

It is estimated that in 1976 world market supplies will be up on 1975.

The high stocks, in particular of skimmed-milk powder have created a climate of uncertainty and of reduced confidence in the traditional importing countries, at a time when vegetable proteins are

Graph 3 — Cows' milk production and human consumption of milk and milk products¹ in the Community of Nine 1960-85



¹ Whole milk equivalent (based on fat content)
² Including condensed milk and whole milk powder.
³ Excluding condensed milk and whole milk powder.

being substituted for skimmed milk in feed rations.

The drop in butter consumption has continued in many countries and price increases have inhibited butter consumption in potential markets.

Finally, the rise in the levels of production support has led several countries to increase their restrictions on cheese imports.

The future market imbalance

19. The Commission considers that the situation of the dairy market must be viewed not only from the angle of the past (1968-75) and of the present (1976) but also in relation to future trends. Future trends up to 1980 and even beyond are extremely disquieting.

The structural surplus will tend to increase in future under the influence of increasing production side by side with stagnating or even slightly declining consumption. The constant increase in yields, including the permanent effect of a favourable price relationship between milk and soya, the increase in the rate of milk delivery to dairies, the end of the present descending phase of the cycle of dairy cows¹ are all elements which will lead to increases in production and therefore, in the size of the surplus.

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.

Despite uncertainties concerning the short-term effects of the drought, milk supply may be expected to exceed demand considerably in the future.

20. If one bases oneself on total supply and if one takes into consideration the fact that the new Member States have not all yet reached the Community price level, it can be concluded that there is a surplus of milk delivered to dairies of the order of 10 %.

Action programme 1977-80

21. The Commission considers that a continuation of the basic imbalance between supply and demand on the milk market could endanger not only the operation of the common organization of the market in milk and milk products but the common agricultural policy as a whole.

For that reason it believes that action confined to traditional instruments would, under present circumstances, have only a limited effect. The problem calls for an immediate and extensive action programme spread over several years—a programme which incorporates and coordinates all measures which could serve to solve the problem.

22. The imbalance in the milk market is caused by milk production which is greater than the static demand. The Commission considers it necessary to propose measures which will act upon both the milk supply and the demand for milk products.

23. Given that the possibility of acting directly through the prices policy is limited, the Commission has sought other means of taking comprehensive action to influence both the supply and demand for milk products.

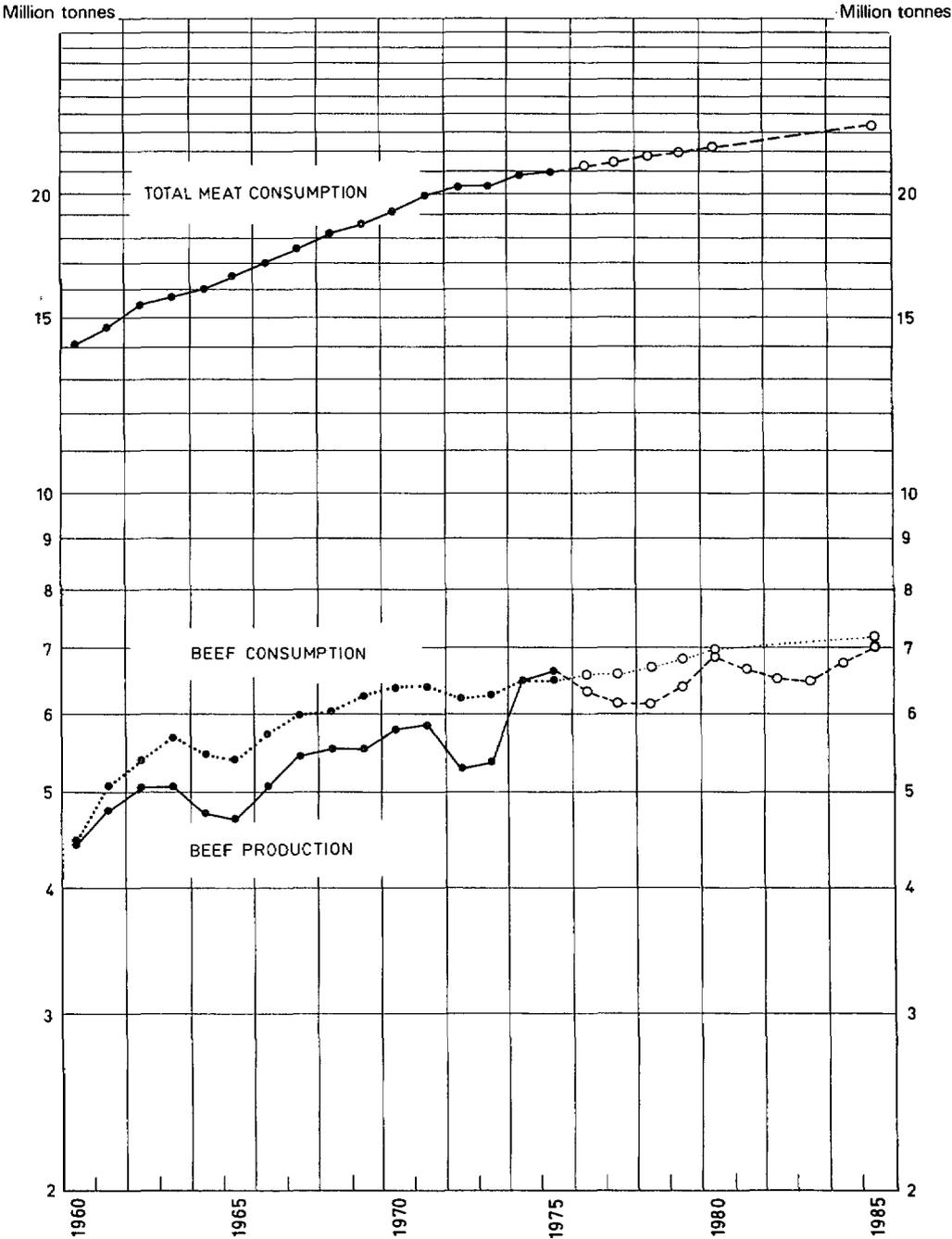
The Commission is aiming first at a significant reduction in milk deliveries to dairies continued with a brake on investments on dairy farms and dairies. The attainment of these objectives calls for the implementation of a system of premiums for the non-marketing of milk and the conversion of dairy herds—taking into account the absorption capacity of the market in beef and veal.² It also calls for the temporary suspension of the national and Community aid measures which encourage the expansion of milk production.

24. The Commission considers it indispensable to establish a more direct link between the production and marketing of milk by creating, through the introduction of a milk producers' co-

¹ See Graph 2.

² See Graph 4.

Graph 4 — Gross domestic beef production, beef consumption and total meat consumption in the Community of Nine 1960-85 (semi-log scale)



responsibility levy, a more favourable economic and psychological climate for achieving balance on the milk market. The introduction of such a levy would also have the advantage of making funds available which could be used for expanding the market for milk both within the Community and outside it.

In this connection the Commission considers it necessary to introduce a procedure for consulting those concerned, so that they may express their opinions on the content and effectiveness of the action programme (1977-80) at the different stages of preparation and implementation.

25. Effective action to expand the market must of course relate to the internal market of the Community. It must include the reinforcement and amplification of the special marketing measures already implemented or envisaged, such as the programme for the consumption of milk in schools, sales promotion, market development and the wider use of liquid skimmed milk on the farm.

26. The imbalances referred to in paragraph 4 of this communication call for certain measures at Community level, some of which should be included in the context of international cooperation.

27. These considerations lead the Commission to propose to the Council an action programme (1977-80) for the progressive achievement of balance in the milk market, to include the following measures:

- (a) reduction of the dairy herd by the introduction of a Community system of premiums for the non-marketing of milk and for the conversion of dairy herds;
- (b) suspension of national and Community aid to the milk sector for three years;
- (c) introduction of a co-responsibility levy together with a consultation procedure;
- (d) expansion of the Community markets;
- (e) measures to reduce the imbalances referred to in paragraph 4.

On the basis of the considerations outlined in this communication the Commission considers that at its meeting on 19, 20 and 21 July the

Council should debate the action programme 1977-80 in detail. An amended proposal is at present before the Council concerning the Community system of premiums for the non-marketing of milk and conversion of dairy herds. The formal proposals relating to other features of the action programme will be transmitted to the Council and the European Parliament at a later stage.

Community systems of premiums for the non-marketing of milk and for the conversion of dairy herds

28. The Community intends to extend considerably the scope and thereby the impact and effectiveness of the proposal already submitted to the Council. It therefore proposes to modify the conditions for granting the premium and to permit it to be combined under certain conditions with the annuities provided for in Council Directive 72/160/EEC¹ concerning measures to encourage the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement and to reinforce the campaign to eradicate tuberculosis, brucellosis and leucosis in dairy cows.

29. The main amendments to the initial proposal concern the maximum quantity of milk per herd in respect of which the premium will be paid, the groups of beneficiaries, the level of the premiums and the phasing of premium payments. Simplified conditions will accompany improved control procedures.

The implementation of the system provisionally provided for up to 1 April 1978, which must be closely interrelated with developments in the beef and veal market, will be under constant supervision so that it may be suspended once the objectives pursued are attained.

30. The application of this system should also serve to improve the structural impact of Council Directive 72/160/EEC and result in a further

¹ OJ L 96 of 23.4.1972.

cutting back of milk production especially in the case of elderly farmers. For that reason the Commission proposes that a farmer who receives the premium for the non-marketing of milk and the conversion of his dairy herd should be able to cease farming and also receive the annuity provided for in Directive 72/160/EEC.

31. The implementation of this system should also serve to speed up the eradication of infectious diseases. The Commission therefore proposes that the premium for the non-marketing of milk and the conversion of the dairy herd may be cumulated with the national aid provided for under the national campaign programmes against tuberculosis, brucellosis and leucosis.

The Commission will also propose to the Council a Community eradication programme, providing for the slaughtering of infected dairy cows during the period 1977-80.

Suspension of national and Community aid to the milk sector for three years

32. The Commission intends to put a brake on milk sector investments at the farm and dairy. On the other hand it would encourage investments which assist the resale of liquid skimmed-milk by the dairy to the farm, which support the non-marketing of milk and the conversion of dairy herds and it would encourage investments concerning new products.

33. Except in areas covered by Directive 75/268/EEC¹ on mountain and hill farming and farming in less-favoured areas the Commission proposes to suspend all investment aid for cow milk production for three years. This measure will apply to applications submitted after 8 July 1976.

Farms which keep dairy cows and which submit a development plan providing that at least 80 % of the fodder needed by the cattle is produced on the farm itself and that on completion of the plan the number of dairy cows does not exceed 1.3 per ha of utilized agricultural area can receive investment aid within the limits and under the conditions set out in Article 8 of Council Directive 72/159/EEC² on the modernization of farms.

34. The Commission proposes to introduce immediately a three-year prohibition on all national investment aid for the processing and marketing of milk and milk products.

During the same period the Commission will grant no aid from the EAGGF Guidance Section for projects relating to the production of milk and milk products under Council Regulation 17/64/EEC³ on the conditions for granting aid from the EAGGF.

It also proposes to exclude, for the same period, the milk sector from the common measure to improve the conditions of processing and sale of agricultural products, which is at present under discussion in the Council.⁴

The suspension of national and Community aid does not affect research and investments concerning new products which could increase the market outlets for milk; a development which on the contrary the Commission wished to encourage.

35. It should be possible to combine the guidance premium for meat production provided for in Directive 72/159/EEC on the modernization of farms with the premium for the non-marketing of milk and the conversion of dairy herds. Under certain conditions Directive 72/159/EEC now allows the financing of investments in the pig-meat sector, including investments aimed at the utilization of liquid skimmed milk. It is recalled that the amounts provided for in Directive 72/159/EEC will be increased in accordance with the proposal already submitted to the Council.⁵ The Commission is also prepared to grant aid from the EAGGF Guidance Section for investment projects which assist the resale of liquid skimmed-milk by the dairy to the farm and in particular collective investment schemes for reception facilities on pig farms.

¹ OJ L 128 of 19.5.1975.

² OJ L 96 of 23.4.1972.

³ OJ 34 of 27.2.1964.

⁴ OJ C 218 of 24.9.1975.

⁵ OJ C 126 of 9.6.1976.

Introduction of a co-responsibility levy

36. The Commission intends to establish a more direct link between the production and sale of milk and to create an economic and psychological climate favourable to a better market equilibrium. For this purpose it proposes the introduction of a temporary levy applied in a uniform manner to all quantities of milk supplied to the dairies and on direct sales of dairy products to the farm.

Up to 1980 the Commission proposes fixing the rate of this levy within a fixed range. Each year before 1 November, it will be for the Council to decide the rate of the levy to be applied in the light of trends and prospects on the milk market.

The rate of this levy will be modified in the course of the year if unforeseeable events so require.

37. The co-responsibility levy is not levied in hill and less favoured areas as defined pursuant to Article 3(3) of Directive 75/268/EEC.

38. The Commission considers that yields from the co-responsibility levy should form part of the intervention system provided for by the common organization of the markets for milk and milk products. In the framework of this intervention system, yields from the levy should in principle serve to finance measures for expanding markets both within the Community and internationally, as explained in paragraphs 41 to 47.

In particular this involves supplementary aid for liquid skimmed milk in order to bring its price down to a level which is competitive with vegetable protein; secondly the funds from the levy must serve to finance measures to promote sales and to open up markets both within and outside the Community; finally it should enable long-term export contracts for milk products to be concluded.

39. The 1977-80 action programme for the progressive establishment of equilibrium in the milk market can only succeed if all concerned combine their efforts in order to ensure its maximum effectiveness. For that reason the Commission, at the invitation of the Council, has consulted the

producer organizations at community level when drawing up its proposals.

For the same reason the Commission proposes that the producers also be consulted every year in respect of the co-responsibility levy.¹

40. The proposed procedure for consulting those concerned falls within the terms of reference of the Advisory Committee on Milk and Milk Products.

The consultation of the Advisory Committee should relate to measures for the use of the funds accruing from the co-responsibility levy.

When measures are the subject of a proposal of the Commission to the Council, the opinion of these concerned will be forwarded to the Council at the same time as the Commission proposal.

Enlargement of the Community markets

41. Faced with a drop in the consumption of milk products and with very lively competition from other producer countries and from substitute products, the dairy sector must itself react and set out to search for and conquer new markets. The Commission considers that this is primarily the responsibility of producers and of the dairy industry and that the public authorities should only intervene in a subsidiary way and to the extent that their intervention proves indispensable.

In addition to the measures referred to in paragraph 38, the Commission proposes maintaining and strengthening existing disposal measures, increasing the programme of milk consumption in schools, and giving active support to sales promotion and market protection measures (market research, product development) undertaken by the producers themselves.

42. The Commission invites the Council to decide rapidly on the exclusive use of dairy products in the manufacture of certain food products. It plans therefore to make certain amendments to the proposals already submitted to the Council.

¹ In this case COPA.

43. The Commission wishes to inform the Council of its intention to adjust the system of aid for liquid skimmed-milk with a view to securing maximum use of this product on the farm, particularly in pig farms; for this purpose it intends to fix the amount of the aid for supplementary quantities at a level which will make this product competitive with vegetable proteins.

The Commission considers that the Member States should undertake, as part of a concerted action, to allocate a sum equivalent to that produced by the tax for improving development cooperation and aid, including food aid.

Measures to reduce certain imbalances between the milk sector and related sectors

44. The erratic movements of import prices of vegetable proteins and the present situation as regards export outlets for Community milk products seriously hinder the common organization of the market in the milk sector.¹

45. The Commission is aware that solutions to these two problems cannot be solved on one side only. Any hasty action in disregard of the need for international cooperation would be doomed to failure. It would be recalled here that under the GATT multilateral trade negotiations, the Commission has already expressed its views on the factors to be taken into consideration in working towards international agreements. Such agreements could improve international cooperation by ensuring an expansion of trade on stable world markets. It is clear that this subject should be given high priority in the operative phase of the negotiations because the problem is particularly serious and pressing.

46. In order to lessen the imbalance relating to proteins the Commission proposes that the movement of import prices of vegetable protein be taken into account when the milk producers' co-responsibility levy is fixed.

47. The Commission considers that it will be possible to mitigate the imbalance that exists between butter fat and vegetable fat by introducing a tax on vegetable and marine oil and fats (CCT 15.07 B, C, D, and CCT 15.04) under the common agricultural policy. This tax should be levied on both imports and home production. The amount should correspond to that of the co-responsibility levy on milk.

¹ Paragraph 4.