

EUROPEAN PARLIAMENT

Working Documents

1979 - 1980

7 December 1979

DOCUMENT 1-565/79

Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (Doc. 1-323/79) for a Decision authorizing the United Kingdom to grant a national aid to milk producers in northern Ireland

Rapporteur : Mr Thomas MAHER

By letter of 21 September 1979, the President of the Council of the European Communities requested the European Parliament, pursuant to Articles 42 and 43 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a decision authorizing the United Kingdom to grant a national aid to milk producers in Northern Ireland.

The President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible.

On 27 September 1979 the Committee on Agriculture appointed Mr Maher rapporteur.

It considered this proposal at its meeting of 28/29 November 1979.

At the same meeting the committee adopted the motion for a resolution and explanatory statement by 18 votes with 7 abstentions.

Present: Sir Henry Plumb, chairman, Mr Ligios, vice-chairman, Mr Maher, rapporteur, Mr Battersby, Mr Bocklet, Mr Buchou, Mr Clinton, Mrs Cresson, Mr Curry, Mr Davern, Mr Delatte, Mr Diana, Mrs Herklotz, Mr Jürgens, Mr Kirk, Mr Maffre-Bauge, Mr J Brøndlund Nielsen, Mr Nothomb (deputizing for Mr Helms), Mr Pisani (deputizing for Mr Hauenschild), Mr Papapietro, Mr Pranchère, Miss Quin, Mr Skovmand, Mr Sutra and Mr Wettig

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The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

A

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a decision authorizing the United Kingdom to grant a national aid to milk producers in Northern Ireland

The European Parliament

- having regard to the proposal from the Commission of the European Communities to the Council¹;
 - having been consulted by the Council pursuant to Articles 42 and 43 of the EEC Treaty (Doc.1-323/79).
 - having regard to the report of the Committee on Agriculture (Doc.1-565/79),
1. Approves the Commission's proposal to authorize payment of a national subsidy as a temporary solution to certain problems facing Northern Irish milk producers, on the condition that distortions in price levels and intra-Community trade are not introduced;
 2. Points out that a fixed-rate subsidy may lead, given fluctuations in green rates, to prices provided for Northern Irish producers exceeding the common Community prices;
 3. Regrets that the subsidy to Northern Irish milk producers appears to have introduced distortions already in intra-Community trade;
 4. Believes that the Commission's proposal will do nothing at all to solve the fundamental problems facing the Northern Irish milk producers, and that, therefore, more longer-term solutions are required which may include:
 - (a) greater encouragement to conversion to beef production, and
 - (b) improvement in the marketing facilities for dairy products of Northern Ireland.
 - (c) an examination of the possibility of establishing greater co-operation between the Northern Ireland Milk Marketing Board and the other Milk Marketing boards of the United Kingdom in order to discuss the possibility of access for liquid milk from Northern Ireland on the main markets of mainland United Kingdom.

¹ OJ C 242, 27.9.1979 p.2

EXPLANATORY STATEMENT

Introduction

1. The Commission's proposal is to provide a legal basis for the granting, for a further year, of a national subsidy to Northern Irish milk producers, at a maximum rate of 1.3 pence per litre of milk delivered to dairies.
2. Until the end of the transition period, the United Kingdom paid production subsidies to its dairy producers. On 1 January 1978 the system came to an end.
3. It was decided, however, that the system of direct aid to producers should be continued for a year in Northern Ireland because of the following disadvantages faced by Northern Ireland producers compared to other UK producers:

- (a) A very much lower proportion of milk in Northern Ireland goes to direct consumption as liquid milk - 19 per cent as compared with 52 per cent in Great Britain. Prices received for liquid milk are higher than those for manufacturing milk;
- (b) The continuing currency fluctuations have resulted in differences in the UK and Irish price levels. Prices paid to producers for milk, pence per litre, in 1978 were as follows:

United Kingdom	-	10.20	(10.460) ¹
Northern Ireland	-	10.20	(10.216) ¹
Republic of Ireland	-	11.12	

Furthermore, the marketing boards which are well suited to the needs of British producers, facing a UK deficit of dairy production and a high level of liquid milk consumption, do not correspond to the needs of the Northern Irish producers. The needs of the British producers are well served by an organization concerned principally with distribution.

In the case of Northern Ireland, domestic distribution is not sufficient. Export markets must be developed; marketing organizations established. Unless this is done, Northern Ireland producers will always be at a disadvantage.

¹ 1978/79 marketing year, rather than calendar year, which shows more clearly that Northern Irish prices are normally slightly lower than the UK average

The existing and proposed schemes

4. The Northern Ireland Milk Aid Scheme provides a subsidy of 1.4 pence per litre from the UK Treasury to the Northern Ireland Milk Marketing Board. This amounted to 13 per cent of the total amount paid to milk producers in Northern Ireland in the year ending March 1979.

5. The 1978 version, approved by the European Parliament, Doc. 226/78, laid major emphasis in justifying this subsidy on its temporary nature and with the different green rates in Ireland and the UK resulting in a high level of net MCA subsidy on imports in Northern Ireland from the Republic.

6. The 1979 version proposes only a reduction of 0.1 ppl of the subsidy in 1979 to 1.3 ppl which would imply that this temporary subsidy would only be finally phased out after 14 years. It makes no reference to the problems caused by a high level of MCA import subsidies.

7. The original rationale of the milk subsidy was very much analogous to the beef scheme in Northern Ireland, the Meat Industry Employment Scheme. This scheme made a payment to Northern Ireland meat factories which was equivalent to the net MCA between the UK and Ireland. This coincided with the non-payment of MCA's on cattle crossing the Irish border into Northern Ireland.

8. Thus the beef scheme could be seen as an MCA substitute subsidy which was justified:

(a) By the difficulty the UK Customs had in preventing cattle leaving Northern Ireland over a long land frontier and evading the UK MCA levy on exports;

(b) By the fact that the subsidy was directly linked to the MCA rate and has thus reduced and indeed on occasion disappeared in line with the strengthening of sterling.

Possible price distortions

9. Given that the subsidy is fixed and green rates fluctuate, it is evident that a rise in the value of sterling, such as occurred recently, would bring prices to Northern Irish producers above common Community prices. This results from the fact that the milk subsidy has continued with no relation to the great reduction and temporary disappearance of the MCA problems originally used to justify it.

This change may be summed up in the following figures:

	<u>Irish MCA (%)</u>	<u>UK MCA (%)</u>
Date of original decision 22.5.79	- 2.8	- 27.9
Date of renewed decision 2.7.79	0	- 6.0
Date of Commission proposal 11.9.79	0	- 3.3
Current position 12.10.79	0	- 8.9

10. When the UK MCA reached zero, the subsidy resulted in Northern Ireland producers being entitled to a return 15 per cent higher than the common price level.

Possible trade distortions

11. There is also substantial evidence to show that the N.I. subsidy has not been used to increase the N.I. producer price for milk as originally intended, but instead to subsidize a greatly increased Northern Ireland share of the UK butter market. The following table is based on a regular survey carried out of the butter market in Great Britain (excluding Northern Ireland) for the Butter Information Council by Audits of Great Britain Ltd.

	<u>RETAIL BUTTER MARKET IN GREAT BRITAIN</u>			<u>Market Share</u> <u>N.I. Butter</u> <u>%</u>
	<u>Average Retail Price</u>			
	<u>All</u> <u>Butter</u>	<u>N.I.</u> <u>Butter</u>	<u>Difference</u>	
	p/lb.	p/lb.	p/lb.	
<u>1978</u>				
January	49.1	47.9	1.2	0.5
February	49.9	49.7	0.1	0.6
March	50.4	50.5	+0.1	0.4
April	51.3	50.2	1.1	0.4
May	51.5	51.7	+0.2	0.6
June	52.6	52.0	0.6	0.5
July	55.1	52.8	2.3	0.8
August	57.4	54.7	2.7	1.0
September	58.9	56.6	2.2	1.9
October	59.9	58.1	1.8	1.8
November	60.2	58.0	2.2	2.2
December	60.5	53.4	7.1	1.2
<u>1979</u>				
January	65.5	61.9	3.7	4.3
February	66.9	62.7	4.2	3.8
March	66.4	63.0	3.4	6.7
April	67.4	63.7	3.7	5.6
May	67.8	65.7	2.1	4.8
June	67.8	65.3	2.2	5.0
July	64.1	60.0	4.1	7.3
August	62.7	59.4	3.3	5.9
September	64.0	61.8	2.2	1.8

12. This subsidy was designed to give the Northern Ireland milk producer some compensation for artificially low prices caused by the green pound policy of the previous United Kingdom Government. It would appear that it is currently being used, now that the UK green rate has come back into line, to distort an English butter market already distorted by New Zealand, and to enable Northern Ireland butter to undercut other EEC butter suppliers.

13. It even appears that Northern Irish producers are exporting dairy produce to the Irish Republic with the aid of this subsidy.

The need for a more lasting solution

14. Clearly, the proposal made by the Commission is a short-term one and unsatisfactory as a long-term solution to the problems facing Northern Irish dairy producers, which are basically related to finding a worthwhile market for their dairy produce.

15. Three such longer-term solutions could be advanced:

- (i) Improving the processing capacity and marketing facilities in Northern Ireland, particularly for butter and cheese, so as to improve Northern Irish market penetration on the major markets and in particular those in Great Britain;
 - (ii) Making available to the Northern Irish dairy producers the Irish marketing facilities; for example, by marketing Northern Irish butter under the Kerry Gold label;
 - (iii) Strengthening the cooperation between the Northern Ireland Milk Marketing Board and the other United Kingdom Milk Marketing Boards in order to ensure greater access for liquid milk from Northern Ireland on the main markets of Scotland and England.
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- (iv) Recognizing that the problems facing dairy producers in Northern Ireland are not short term and therefore dairy producers should be encouraged to convert to other forms of production and in particular beef.

The Northern Irish beef sector

16. The last option is one that fits in well with the normal production pattern in Northern Ireland.

Northern Ireland is one of the main beef production areas in the Community. In this, and in its general trends in agricultural production, Northern Ireland follows a similar pattern to that found in Ireland and this is illustrated by the size of the beef herd in Northern Ireland and Ireland.

Percentage of beef cows as to total cows

	<u>Northern Ireland</u>		<u>Ireland</u>		<u>United Kingdom</u>	
	<u>%</u>	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>	<u>Total</u>
1974	59.0	582,000	34.0 (18-56%)	2,034,000	38	
1977	50.7	555,000	25.7	1,996,000	33	

In 1967, 68 per cent of all Northern Irish cattle herds contained no dairy cows. The equivalent figure for Ireland was 39 per cent.

17. Clearly, Northern Ireland is the principal specialist beef production area. Until 1974 the cattle herd was specializing more and more into beef. Since 1974 the trend has been reversed and the specialist beef herd has been declining more quickly than in any other area in the Community, probably as a result of the Community's milk/beef price ratio.

18. It must be recognized at the same time that the majority of milk producers in Northern Ireland are small farmers and that it simply would not be possible for them to avail themselves of schemes to encourage conversion from milk to beef production. Beef production on such a small scale would not be economic. Milk production is the only production in the Northern regions which allows the smaller farmer to achieve an acceptable standard of living.

For the greater part of milk producers in Northern Ireland, therefore, a long-term solution to their problems must be found in the dairy sector by improvements in the marketing of Northern Irish dairy produce and access of liquid milk from Northern Ireland to Scotland and England.