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Report

drawn up on behalf of the Committee on Agriculture

on measures to be taken to improve the situation in the milk sector

Rapporteur: Mr R. HOWELL

English Edition PE 56.103/fin.

By letter of 15 November 1978 the Committee on Agriculture requested authorization to draw up a report on the situation in the milk sector.

By letter of 20 December 1978 the Bureau of the European Parliament authorized the Committee to draw up a report on this subject.

The Committee on Agriculture appointed Mr Howell rapporteur.

It considered this draft report at its meetings of 18/19 December 1978, 17 January 1979, 25/26 January 1979, 1/2 February 1979 and 1/2 March 1979. At this last meeting it adopted the motion for a resolution by 6 votes to 4 with 4 abstentions.

The Committee on Agriculture decided, according to Article 42(2) of the Rules of Procedure, to append the opinion of the minority to the motion for a resolution.

Present: Mr Caillavet, Chairman; Mr Liogier, Vice-Chairman; Mr Howell, rapporteur; Mr Brugger, Mr Corrie, Mr Dewulf, Mr Durand, Mr Früh, Mr Hansen, Mr B Nielsen, Mr Pisoni, Mr Scott-Hopkins, Mr Soury and Mr Tolman.

C O N T E N T S

ANNEX

A

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

MOTION FOR A RESOLUTION

on measures to be taken to improve the situation in the milk sector

The European Parliament,

- having regard to the report of the Commission of the European Communities on the situation in the milk sector (COM(78) 430 final),

- having regard to the report of the Committee on Agriculture (Doc.115/79),

Necessity for new measures

1. Considers that the Commission is pursuing the right course in its efforts to find a solution to the problems of overproduction in the milk sector, but that the measures taken to date should be strengthened;

   These measures comprize:

   (a) a prudent pricing policy

   (b) a co-responsibility levy

   (c) non-marketing premiums for milk, conversion premiums and slaughter subsidies

   (d) marketing incentives;

2. Is of the opinion that:

   (a) the problem of dairy surpluses is jeopardizing the development of the agricultural policy

   (b) the number of dairy cattle is static but the yield per cow is steadily rising while, at the same time, consumption is generally falling;

3. Considers that in this situation appropriate measures are required to prevent the agricultural policy from being undermined by excessive financial burdens;

4. Calls upon the Commission to set its present policy in a longer-term framework and provide a longer-term basis for its measures to dispose of dairy produce, some of which have so far been of a highly short-term nature;

Objectives of future measures

5. Considers that any measures to improve the situation in the dairy sector must take into account the underlying social and political reality and, in particular, the fact that nearly two million producers depend on the milk sector, 60 per cent with less than 10 cows, and who have little alternative production available to them;

6. Believes that the principal objective should be to maintain the standard of living of the dairy sector, as well as improving incomes in the dis-favoured and peripheral regions of the Community; and that to this end, a guaranteed minimum price to producers should be introduced, linked to quantity-based pricing arrangements and determined on the basis of the trend in farming costs;

7. Considers that future measures should incorporate mechanisms to ensure:

(a) that price policy could again be conducted on the basis of objective criteria clearly linked to cost developments,

(b) to increase the responsibilities of dairies for the disposal of their products on the market,

(c) that new markets be created and that consumption be encouraged within the Community particularly for those products such as milk, butter and cheese for which additional demand can be created,

(d) that each region should have the possibility to employ production methods particularly suited to local conditions and requirements,

(e) that the development of the dairy industry should not be frozen at its present level but that there should be adequate reward for improvement in management and production methods,

(f) that greater emphasis be placed on the production of quality produce rather than quantity and on a reduction in production costs rather than a constant encouragement to increase production;

8. Does not consider that a system of production quotas based on price differentials is feasible for the whole Community as:

- it presupposes a system for controlling hundreds of thousands of farms of different sizes, which is impossible;

- it leads to quantities of milk in excess of the basic quota being put on the free market, which tends to aggravate rather than improve the present situation;

- it creates an intolerable burden for small farmers (keeping of registers, self-discipline);

Urges the Commission, therefore, to amend the present regulation on producer co-responsibility in the dairy sector to take account of:

(a) the size of supply requirements

(b) the time-limit for the elimination of surpluses

(c) the financing arrangements: for example, one-third to be financed by the European agricultural industry, two-thirds by the EEC;

9. Believes that adequate incomes to dairy farmers should be achieved by means of the introduction of a guaranteed minimum price to ensure fair and reasonable prices paid directly to farmers rather than by means of costly subsidies to dairies;

This would consititute the first step in a system by which all milk production required for the maintenance of market supplies would receive a higher price and any production in excess of market requirements would receive a significantly lower price;

10. Emphasizes that there should be no question of imposing limits on cow numbers or milk produced on individual farms, nor of establishing a force of inspectors since such a system would be both impracticable and too inflexible; the system would apply only to milk delivered to dairies;

Consumption

11. Underlines the fact that campaigns to encourage consumption will not significantly improve the situation in the dairy sector if not linked to effective measures to improve the market organization;

12. Instructs its President to forward this resolution, including the minority opinion attached, together with the report of its committee, to the Council and Commission of the European Communities and to the parliaments and governments of the Member States.

ANNEX

TO THE MOTION FOR A RESOLUTION

The European Parliament wishes to bring to the attention of the Council and the Commission of the European Communities the following minority opinion expressed during the vote on the motion for a resolution in the Committee on Agriculture on 1/2 March 1979.

The minority of the members of the Committee on Agriculture

1. Considers that all the measures proposed by the Commission and adopted by Council to solve the problems of overproduction in the milk sector have failed utterly to achieve any improvement and will have no greater success in the future;

2. Emphasizes that:

   (a) Overproduction is increasing each year and will get rapidly worse as the production capacity of many regions is being steadily developed; cow numbers are remaining static, but yield per cow is steadily rising, at the same time consumption is generally falling,

   (b) Production is already 15 to 18 per cent above market requirements, and is increasing at a rate of 4 to 6 per cent a year,

   (c) 3600 million u.a. have been set aside in the 1979 Budget to subsidize the dairy sector, not including expenditure on food aid and storage costs for dairy produce;

3. Considers that this situation threatens not only to undermine the milk industry and the Common Agricultural Policy, but is doing grave damage to the credibility of the EEC;

4. Calls upon the Commission to abandon its reliance on the present policy of adopting short-term, stop-gap measures, such as the co-responsibility levy, which are ineffective, costly and which are wasteful in terms of expenditure, resources and energy;

   Believes that it is illogical and totally unacceptable to employ considerable quantities of fuel for the drying of skim milk powder for which there is no market;

5. Points out that the Commission, in its report on the dairy sector, believes that there are only two solutions to the present crisis: strengthening of the present concepts of reliance on the price mechanism and co-responsibility tax; or a new quota policy;

Fails to understand why the Commission had rejected out of hand any serious consideration and discussion of quota arrangements;

6. Believes that adequate incomes to dairy farmers should be achieved by means of fair and reasonable prices paid directly to farmers rather than by means of costly subsidies to dairies; this would constitute the first step in a system by which all production required for the maintenance of market supplies would receive a higher price and any production in excess of market requirements would receive a significantly lower price;

7. Emphasizes that there should be no question of imposing limits on cow numbers or milk produced on individual farms, nor of establishing a force of inspectors since such a system would be both impracticable and too inflexible;

8. Considers, therefore, that quotas should not be implemented by means of limits on production, but by giving the farmer the choice of producing a lower amount of milk for a higher price thus maintaining his income, or of continuing on his present course of increasing unlimited output thereby reducing his overall profit margin;

9. Considers that it would be impracticable and ineffective to achieve a more balanced production by means of quotas for each Member State or the dairies;

10. Believes that the only fair and effective system is one implemented at the level of the individual farm: the Commission together with the Council and European Parliament, should advise annually on the level of milk production, either increase or decrease, required to ensure that supply would be in line with demand;

11. Believes that this would lead to a system of self-discipline in the dairy sector, which would be attractive to farmers since it would enable them to maintain their present incomes from milk production while reducing costs and releasing some of their holdings to other forms of production;

12. Recognizes that in order to implement such a scheme it would be necessary for a register of milk producers to be established;

Urges the Commission, as an initial step, to propose immediate measures to establish such a register;

13. Recognizes that such a system cannot be implemented overnight but believes that the Commission and Council should

(a) implement the initial steps, such as the setting-up of a register of producers; and

(b) draw up a programme for the gradual implementation of the system outlined above;

EXPLANATORY STATEMENT

INTRODUCTION: THE LIMITED SUCCESS OF PAST MEASURES

1. The measures which have been proposed by the Commission and adopted by the Council in the past to solve the problems of overproduction in the milk sector have failed to achieve a substantial improvement.

2. The basic element to all the Commission's proposals remains the plan introduced by Commissioner Mansholt for the structural reform of agriculture. Given concrete form in the Reform Directives of 1972 for the early retirement, conversion and training of farmers, these measures have been progressively supplemented and reinforced.

3. The principal result has been to increase the efficiency of production and so adding to existing overproduction. Small farms are replaced by larger, more efficient farms; and unproductive cows have been slaughtered to be replaced by higher yielding herds. An increase, rather than a decrease in production is the inevitable result.

4. The failure of these early attempts led to a more ambitious programme, the so-called 'Milk Action Programme', drawn up by Commissioner Lardinois and implemented by his successor Commissioner Gundelach. This package relied heavily on the traditional recipe of reinforcing structural measures so as to encourage farmers to leave milk production, together with an attempt to impose a 'prudent' price policy in the dairy sector. Two new elements were added: subsidies to encourage consumption; a co-responsibility tax to finance a wide range of measures to sell surpluses on Community and world markets.

These measures have had so far no more success than previous attempts. They have, in fact, failed to offset even increases in production due to improved yields.

5. The net result of all these measures has been that production is now 15 - 18 per cent above market requirements, and increasing at a rate of 4 - 6 per cent a year.

6. At the same time 3,600 mua have been set aside in the 1979 Budget to subsidize the milk sector and measures to try to reduce surpluses.

Other policies envisaged by the Commission

7. The Commission has tried periodically to increase the responsibility of dairies by means of cautious proposals to decrease intervention prices or intervention guarantees for particular products. For example, Mr Gundelach proposed in the 1978/1979 price package that intervention in skimmed milk powder should be suspended for a short period each year. Such measures are seen as a direct threat to the incomes of dairy producers and will not, therefore, be accepted or implemented without complementary measures to guarantee adequate income.

8. The same criticisms can be applied to the last remaining weapon in the Commission's armoury. The Commission has argued that a protein policy, intended to introduce, for example, a minimum price for imported and Community-produced protein, could make a contribution to solving the present dairy market problems.

Such a policy, however, would raise a number of very difficult problems:

(a) it would have an adverse effect on other sectors (eggs, poultry and pork) which might require costly compensation measures,

(b) would result in increased costs to producers and increased prices to consumers,

(c) international trade relations in agriculture produce would be put at serious risk.

A proposal to decrease production by reducing the efficiency of the dairy sector would be unacceptable to producer and consumer alike, as well as being totally impracticable to administrate.

Co-responsibility levy

9. The majority of the Committee believed that present difficulties demonstrated the need for a more long term approach in which the best solution to the problems facing the dairy sector would lie in strengthening existing measures, and in particular:

(a) the prudent price policy
(b) the co-responsibility levy
(c) non-marketing, conversion and slaughter premiums
(d) marketing incentives

The co-responsibility levy would constitute the principal element. The key to understanding the possible impact of a strengthened co-responsibility levy lies in the costing.

The following figures will give some idea of the amounts involved: one-cent levy per kg milk is equivalent to 370 million ua.

Assuming that skimmed milk powder is processed into feedingstuffs, a comparison must be made with, for example, the soya price:

Soya price	22 ua per 100 kg
Milk powder intervention	120 ua per 100 kg
Aid	98 ua

Assuming that the entire stock of milk powder is disposed of in this way, the total cost is about 777 million ua.

Aid granted from September 1977 to February 1978 for the use of fresh skimmed milk powder is feedingstuffs for pigs and poultry averaged 0.95 ua.

On this basis the disposal of 800,000 tonnes of milk powder costs the Community a good 740 million ua a year.

10. This all goes to show that a levy on industry plus aid from the European budget can bring an interim solution to certain of these troublesome problems. A levy on milk could have an adverse effect on farmers' incomes. On the other hand, the market would no longer be overshadowed by surplus stocks, and this could affect prices favourably. Moreover, price policy could again be conducted on the basis of objective criteria clearly linked to cost developments.

A guaranteed minimum price for producers and quantity-based pricing arrangements

11. The Committee believed that in order to tackle the social and economic problems central to the difficulties facing the dairy sector, a new dimension should be added to the market organization.

This would be constituted by a guaranteed minimum price for milk paid to producers. In order for such a guaranteed price to be introduced, producers would be paid a higher price for all milk required for consumption and export requirements. Production in excess of requirements would receive a significantly lower price.

By this means, producers would be assured income at least equal to that at present, while production would be reduced. The savings to the Community's budget which would result, given a reduction in surpluses, could be employed to improve marketing, increasing consumption and to directly aiding producers. Since producers would be able to reduce costs, given the need to produce less, their incomes would improve.

ADDITIONAL MEASURES

12. There are additional measures that could be employed in conjunction with the system proposed above.

Beef and cereal conversion schemes

13. The conversion and non-marketing premia have failed to make any substantial impact on production trends, and have not even compensated for increase in yields.

14. Any real hope, therefore, in reducing cow numbers would reside in substantially increasing beef conversion incentives and providing production alternatives in other sectors.

This requires direct measures to encourage beef production and further measures to encourage the production of vegetable protein. The encouragement of specialized beef production may in turn require a system of direct payments, and a revision of the present beef market organization.

It can be emphasized, however, that the costs of a system of direct beef payments will be largely offset by savings on intervention in dairy produce.

15. It is unlikely, at the same time, that an adjustment in production between the dairy, beef and vegetable sectors will provide a sufficient answer to problems facing the dairy sector.

MINORITY OPINION

16. A minority in the Committee believed that a quota system, the only policy which offers any possibility of coming to grips directly with the central issue, that of the amount of milk produced in the Community, is one that has been rejected out of hand by the Commission. The Commission refuses even to consider the advantages of a quota system.

17. The reasons for this refusal lie partly in misconceptions. The Commission is opposed to limits on production, despite the fact that such a system has been operated with considerable success in the sugar sector.

18. The fairest and most effective system of quotas in the dairy sector would not rely on limits on cow numbers or milk produced on individual farms, nor of establishing a force of inspectors, since such a system would be both impracticable and too inflexible. The most appropriate system must aim at giving the farmer the choice of producing a lower amount of milk for a higher price. thus maintaining his income or of continuing on his present course of increasing unlimited output thereby reducing his overall profit margin.

19. The Commission, together with the Council and European Parliament, should advise annually on the level of milk production, either increase or decrease, required to ensure that supply would be in line with demand.

If one takes the hypotheses that there is currently an overproduction of 10 per cent in the Community, each farmer would be ensured, on the basis of past production, a fair and adequate price for 90 per cent of the equivalent of his previous year's production.

A farmer with fifty cows producing, for example, 200,000 litres in 1978, would receive a top price for 180,000 litres. He would be free to produce what amount he wished above 180,000 litres but would receive only a very low price for it.

If he chose to maintain his previous level of production, he would be granted a very low price on his 'excess' 20,000 litre production.

A farmer with ten cows, on the basis of a production of 40,000 litres, would receive a top price for 36,000 litres. Should he decide to maintain his previous production, he would be penalized on 4,000 litres as against the 20,000 litres of the fifty cow producer.

The farmer would not suffer a reduced income.

If he were to produce in 1978 200,000 litres at, for example, 25 ua/100 ltrs, he would have received 50,000 ua.

Under the system proposed he would receive a slightly higher price for 18,000 litres, for example, 26.5 ua/100 ltrs, providing him with a return of 51,700 ua.

Any increase over his top price allocation of 18,000 litres would receive a price that did not encourage extra production based on extra inputs of oilcake etc, for example 8 ua/ltr.

Since under such a system, it would be rational to stabilize one's production and seek to reduce costs, an increasing proportion of the budget under Chapter 62 could be employed for contributing to the financing of the producers' guaranteed price.

In following years, once production had been brought into line with demand, the quotas could be increased as the situation required.

20. One of the great advantages of this system is that it would lead to self-discipline in the dairy sector, which would be attractive to farmers: it would enable them to maintain their present incomes from milk production, while reducing costs and releasing some of their holdings to other forms of production.

21. Clearly such a system cannot be implemented overnight. The Commission should impelement the essential initial steps, such as the setting-up of a register of producers; and, at the same time, draw up a programme for the gradual implementation of the steps outlined above for consideration by the Parliament, the Council and agricultural organizations.

22. There are numerous other advantages to the system outlined above.

(a) Social and regional advantages

Such a system is the only one which provides adequate guarantees to the smaller farmers and those in more peripheral areas.

Moreover, it provides incentives to those who improve techniques so as to cut costs. Consequently, it encourages each region to employ production methods particularly adapted to local requirements rather than as at present imposing the American soya/maize system.

The guaranteed prices paid can be structured so as to give an additional premium

(i) to the initial amount delivered, for example, the first 50,000 litres, and/or

(ii) to farms in the hilly, mountainous or less-favoured areas.

(b) Consumption

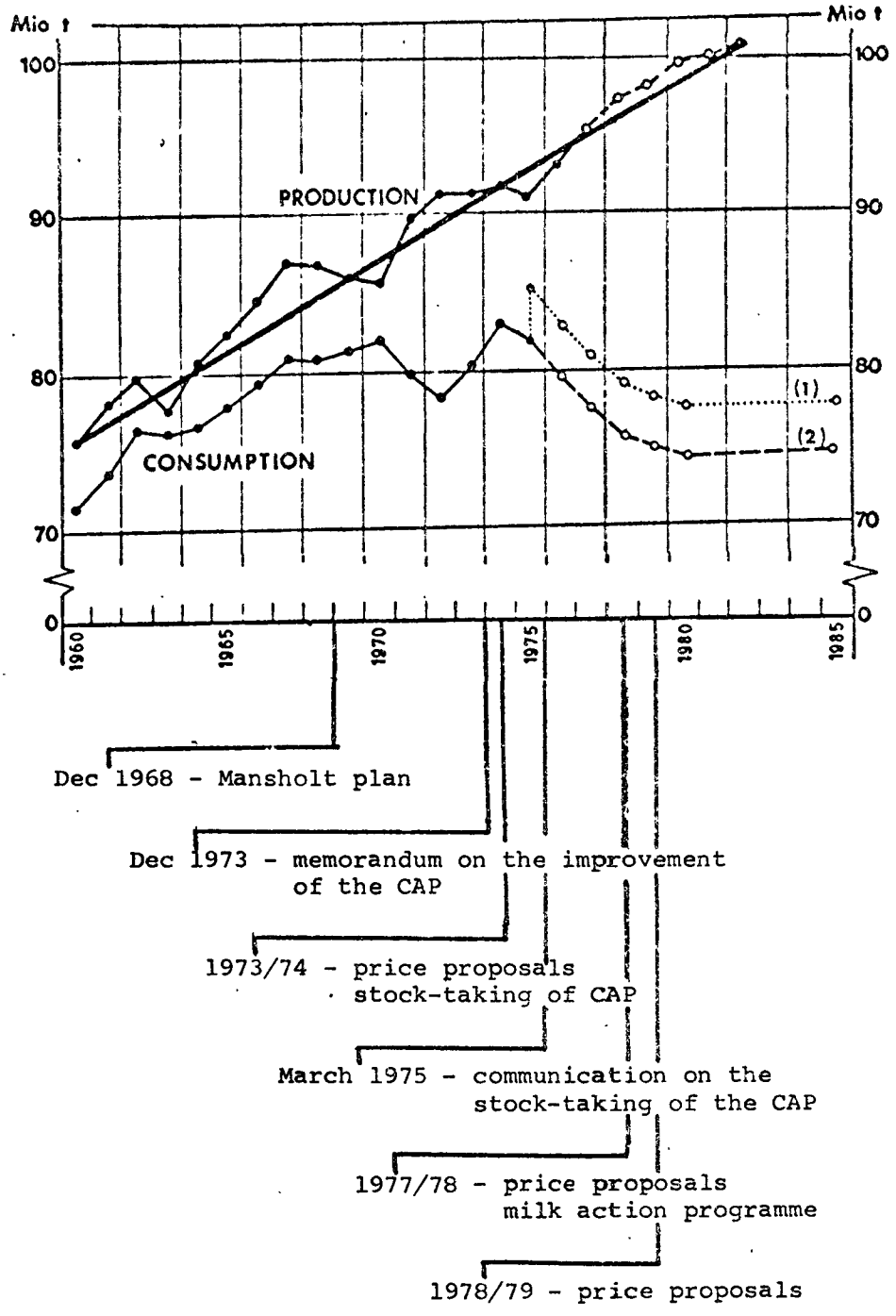
Since it would be possible to use part of the present milk budget as a contribution to financing payments to farmers, it would at the same time be possible to vary the price according to its final use, for example, to fix a lower price for milk employed in manufacturing in those sectors for which additional demand can be generated, such as cheese and butter.

Such a system would increase consumption.

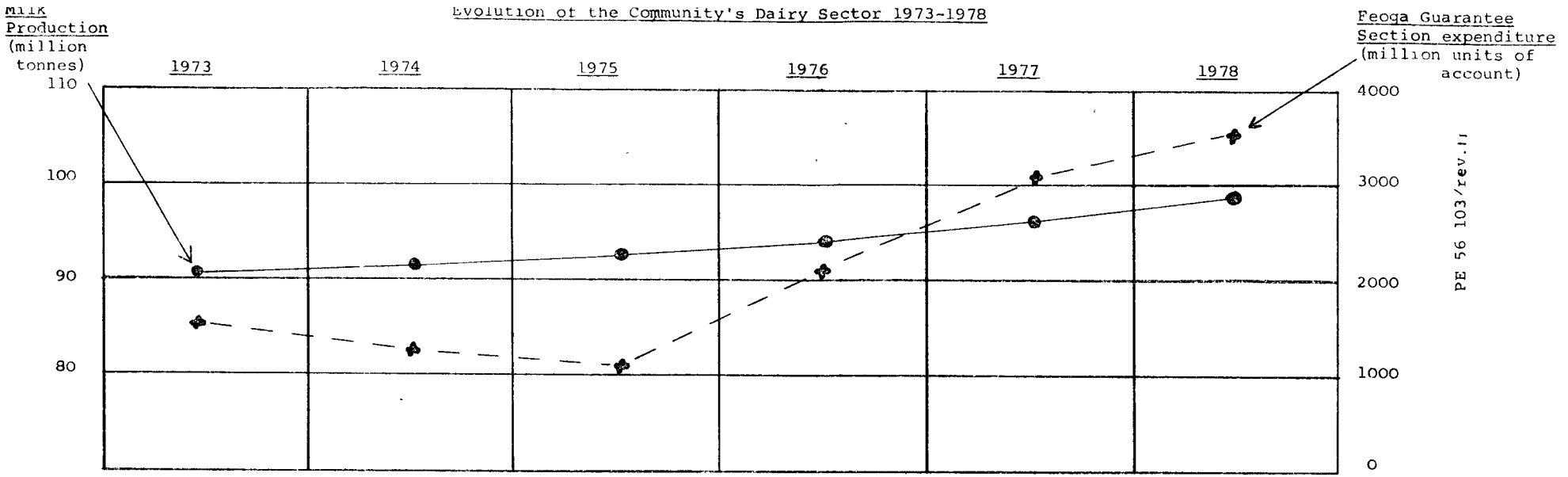
(c) External relations

Since it would be possible to stabilize or even reduce the price of certain basic export products such as cheese and butter, there would be less need to employ high export refunds. This would reduce conflict with Third Countries and may even open the way for greater access to the US market.

THE IMPACT OF THE COMMISSION'S POLICY ON MILK PRODUCTION



Evolution of the Community's Dairy Sector 1973-1978



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Council decisions at Price Review

1973	1974	1975	1976	1977	1978
-Milk target price increase 5.5% (4% in Germany and Benelux).	-Milk target price increase 8%.	-Milk target price increase of 11.1% in 2 stages.	-Milk target price increase of 7.5% in 2 stages.	-Milk target price increase of 3.5%.	-Milk target price increased by 2%.
-Butter price decrease 5.4%	-Zero butter price change.	-Butter price increase of 14.2% in 2 stages.	-Butter price increase of 6.8% in 2 stages.	-Butter price increase of 3.19%	-Butter intervention price increased by 2.1%.
-Skim milk powder price increase of 12%.	-skim milk powder price increase of 19.7%.	-Skim milk powder price increase of 7.2%.	-Skim milk powder price increase of 4.5% in 2 stages.	-Skim milk powder price increase of 2.98%.	-Skim milk powder price increased by 1.8%.
-Premium for conversion from dairy to beef.			-Consideration of non-marketing premium postponed.	-Non-marketing and beef conversion premium introduced.	-Non-marketing and conversion premia made more attractive.
-UK butter subsidy agreed.	-UK butter subsidy continued.		-Butter subsidy extended.	-Butter subsidy extended.	-Butter subsidies restructured and maintained.
			-Consideration of coresponsibility postponed	-Coresponsibility levy of 1.5% introduced.	-Coresponsibility levy reduced to 0.5%.
				-School milk scheme	-School milk scheme extended.
			-Aid for direct utilization of liquid skim on farms.	-Aids for liquid and powdered skim agreed.	-Proposal to suspend winter intervention for skim milk powder rejected.
			-Aid for use of skim powder for calves.	-Ban on investment aids leading to increased milk output.	-Decision on suspension of investment aids to be postponed.
				-Eradication schemes for brucellosis, tuberculosis and	

THE DAIRY SECTOR: PRODUCTION, CONSUMPTION AND POLICY OPTIONS

C O N T E N T S

1. Market problems

The extremely serious situation facing the dairy sector can be summarized by two simple facts:

(a) production is already 15 per cent above market requirements and is increasing at a rate of 4 to 6 per cent a year;

(b) 3600 million ua, or 28 per cent of the total Community budget have been set aside to finance the dairy market organization.

At the end of 1978 there were 932,000 tonnes of skimmed milk powder and 250,000 tonnes of butter in public and private stocks in the Community. (At the beginning of 1977, the stocks stood at 1,200,000 and 190,000 tonnes respectively). This represents approximately 20 per cent and 240 per cent respectively of consumption at normal prices.

This imbalance between production and consumption can be explained as follows:

(a) Production

- Despite the slight decrease in the number of dairy cows between 1960 and 1975, milk production increased by 18.8% because of the higher annual yield from dairy cows.

  As a result of genetic improvements and the rationalization of feedingstuffs for dairy cows, the annual yield of 3,058 kg in 1960 increased by 18.4% to 3,620 kg in 1975.

  The annual yield of milk fats, 114 kg in 1960, increased by 20.2% to 137 kg in 1975 which partly explains the increase in stocks of butter and milk powder.

(b) Consumption

- The production of milk for human consumption, 23.7 million tonnes in the period 1960-62 fell by 0.4% to 23.6 million tonnes in the period 1973-75. During the same period, the population of the Nine increased by 9.8%.

  Changes in consumer habits and a preference for skimmed rather than whole milk explain why stocks of milk powder increased so much between 1960 and 1975.

TABLE I

MILK PRODUCTION AND MILK BALANCE

CLASSIFICATION	UNIT	EUROPEAN COMMUNITY				
		1974	1975	1976	1977	1978
Production						
Stocks[1] of dairy cows	1,000 head	25,217	24,776	24,808	25,017	25,026
Milk yield	kg/dairy cow	3,570	3,637	3,770	3,838	3,932
Milk production[2]	1,000 t	91,276	91,707	93,528	96,049	100,200
Milk supply	1,000 t	81,183	82,002	83,688	86,542	89,900
Average producer price[3]	ua/100 kg	12	13.53	14.60		
Total production[4]	1,000 t	104,926[5]	105,840[5]	106,753[5]		
Total consumption	1,000 t	100,575	98,824	97,089		
Including:						
Milk as feed	1,000 t	12,993	13,201	13,150		
Fresh products	1,000 t	25,190	25,451	27,116	26,896	
Butter	1,000 t	1,738	1,798	1,720	1,713	1,730
Cheese	1,000 t					
Degree of self-sufficiency						
Milk total[6]	%	104	107	110		
Including:						
Butter[7]	%	93	100	115[8]		
Skimmed milk powder[7]	%	133	158	113[8]		
Stocks[9]						
Butter	1,000 t	148	164	255	195	436[10]
Skimmed milk powder	1,000 t	644	1,248	1,339	1,127	932

1 Stocks in December (only dairy cows)
2 Only cow's milk
3 Ex-dairy with 3.7% fat content, excluding VAT, intervention milk price equivalent
4 Including milk from beef cattle, sheep and goats
5 Including UK commitments for New Zealand products
6 Total production as percentage of total consumption
7 Product weight
8 Taking account of special marketing measures
9 Public and private
10 21.12.1978

TABLE 2

VARIATION VALUE OF MILK

PRODUCTION 1977/78

D	+ 5.5
F	+ 11.7
I	+ 6.3
N	+ 8.1
B	+ 7.3
L	+ 0.1
UK	+ 7.1
IRL	+ 20.7
DK	+ 13.0

TABLE 3

STOCKS: 8 FEBRUARY 1979

	Public Butter	Private Butter	Skimmed milk powder
D	151,443	13,224	436,220
F	24,326	21,754	11,849
I	-	150	-
N	22,804	35,052	815
B	14,334	9,262	47,790
L	2,075	785	4,987
UK	30,453	20,188	52,552
IRL	-	12,806	26,615
DK	9,096	1,011	22,825
EEC	254,831	114,232	606,353

- One of the most significant changes in animal feedingstuffs in the last ten years was the rapid substitution of factory-produced skimmed milk powder for liquid skimmed milk produced on the farm. Because of the difficulty of marketing this product under the prevailing conditions, stocks gradually accumulated.

- The demand for butter depends on two things: the price of butter and the price of margarine.

  Thus, although at the end of 1975 stocks of butter were relatively low (164,000 tonnes), the situation changed in 1976 following a 2 - 4 per cent increase in production from 1975 and a drop in consumption because of the increases in the price of butter without any corresponding adjustment of consumer aid in some Member States and the stable price of margarine.

2. Income problems, the small farmer and the disfavoured regions

Income distribution and trends

The table given on page , and drawn from the results of the Farm Accountancy Data Network, shows that general agriculture (cereals, sugar beet and potatoes) always figures in the groups of holdings with the highest incomes, immediately followed by pigs and horticulture in the northern regions. Among the sectors with the more modest incomes are to be found beef cattle, wine etc, and to a lesser degree milk production.

At the same time, certain countries and the Netherlands and Denmark in particular, register high incomes and other countries, Italy and Ireland, low incomes, no matter what the type of production. This illustrates the importance of factors such as capital investment, technical development and marketing structures in determining income.

These factors also help to explain the fact that Denmark, Belgium and the Netherlands achieve relatively high incomes no matter the size of the holding.

In general, however, it can be seen clearly that there exists a very wide range of incomes for all holdings according to size, in the order of 1:7, with the smaller holdings 5-20 hectares recording 1,325 - 6,171 eua per ALU, and holdings 20-50 hectares 3,107 - 9,587 eua.

Income trends in recent years reflect difficult meteorological conditions and particularly the drought in 1976, and the varying levels of aid accorded by Member States to compensate for losses due to the drought. Trends also reflect the fact that the three new Member States have started from a lower base and have benefitted from monetary adjustments. If one takes the 20-50 hectare group, income trends in 1977 over the average of the previous three years were as follows: a substantial increase for Ireland ( ), UK ( ), Denmark ( ) and Belgium ( ); a more modest increase for Germany ( ), France ( ) and the Netherlands ( ); and a decrease in Luxembourg ( ).

TABLE 4

DEVELOPMENT INDICES IN REAL TERMS FOR LABOUR INCOMES PER ALU
ON THE MOST IMPORTANT TYPES OF HOLDINGS IN THE MEMBER STATES IN "1976"

ø "1973"-"1974"-"1975" = 100

Type of farming/ UAA	Member States								
	D	F	I	N	B	L	UK	IRL	DK
General agriculture									
20 - 50 ha	110	107		150					
≧ 50 ha		73					103		89
Arable - grazing stock									
20 - 50 ha	99	110			109				
≧ 50 ha	141	79					98		
Grazing stock-arable									
10 - 20 ha	83	119	132		86				
20 - 50 ha	92	102	150		103				55
≧ 50 ha		87					96	163	67
Dairy cattle									
5 - 10 ha			138		96			225	62
10 - 20 ha	101	98	136	71	119			184	60
20 - 50 ha	101	101	173	77	119	64	116	223	70
≧ 50 ha		73					108	174	
Beef cattle									
10 - 20 ha		103						276	
20 - 50 ha		109					133	289	
≧ 50 ha		94					111	200	
Mixed cattle									
10 - 20 ha	95	108	127		113			224	75
20 - 50 ha	99	95			110	86	117	211	60
≧ 50 ha		68					111	168	53
Grazing stock - pigs and poultry									
10 - 20 ha	97	124		46	82				60
20 - 50 ha	89	111			79		99	188	60
Pigs and poultry - grazing stock									
10 - 20 ha	75	94		69	79				62
20 - 50 ha	78	122							42
Pigs									
5 - 10 ha					67				
10 - 20 ha		93			64				52
20 - 50 ha		80							66
Horticulture									
< 5 ha		112		88	100				
Viticulture									
< 5 ha		141	75						
5 - 10 ha	128	121	98						

TABLE 5

LABOUR INCOME PER ALU ON THE MOST IMPORTANT TYPES OF HOLDINGS IN THE MEMBER STATES AVERAGE LEVEL "1973 - 1976"

EUA

Type of farming/ UAA	Member States								
	D	F	I	N	B	L	UK	IRL	DK
General agriculture									
20 - 50 ha	4.099	4.740		11.211					
≧ 50 ha		9.342					9.682		10.360
Arable-grazing stock									
20 - 50 ha	4.571	3.578			9.947				
≧ 50 ha	5.574	4.930					7.998		
Grazing stock-arable									
10 - 20 ha	3.283	2.690	3.179		5.293				
20 - 50 ha	3.479	3.568	5.794		8.046				5.836
≧ 50 ha		5.621					6.545	6.669	7.238
Dairy cattle									
5 - 10 ha			2.711		4.008			1.325	5.671
10 - 20 ha	3.092	2.794	3.921	6.171	5.057			2.250	5.869
20 - 50 ha	4.242	4.177	4.888	9.587	7.532	6.576	4.500	3.107	7.698
≧ 50 ha		6.432					6.615	6.831	
Beef cattle									
10 - 20 ha		2.084						1.318	
20 - 50 ha		3.053					2.997	1.829	
≧ 50 ha		4.578					6.105	4.761	
Mixed cattle									
10 - 20 ha	2.917	2.519	4.029		4.468			2.007	5.595
20 - 50 ha	3.598	3.744			7.358	6.566	3.951	2.780	7.392
≧ 50 ha		5.402					6.729	4.820	8.573
Grazing stock - Pigs and poultry									
10 - 20 ha	3.428	2.801		7.138	6.235				5.347
20 - 50 ha	4.646	3.542			8.420		4.060	4.047	7.010
Pigs and poultry - grazing stock									
10 - 20 ha	4.281	4.823		7.181	7.758				5.606
20 - 50 ha	5.142	5.668							7.205
Pigs									
5 - 10 ha					8.457				
10 - 20 ha		7.621			10.487				7.101
20 - 50 ha		8.091							9.521
Horticulture									
≧ 5 ha		5.713		9.078	9.816				
Viticulture									
< 5 ha		4.847	3.399						
5 - 10 ha	4.870	4.194	3.712						

It should not be forgotten that the fixing of guaranteed minimum prices has so far been seen as the main instrument of incomes policy within the common agricultural policy. Farmers are meant to derive adequate incomes from a market supported by minimum prices.

The heavy emphasis on prices as an instrument of incomes policy not only creates the problem of surpluses but also results in ever-increasing disparities between the incomes of fully commercially operated farms, since specific income improvements cannot be achieved by means of regulated prices which apply equally to all holdings. Although price regulation does in fact boost revenue, the situation of holdings in the lower income bracket does not radically improve, whereas large farms derive above average benefits. Thus, the spread of incomes within the agricultural sector is now already considerably greater than the disparities between agriculture as a whole and other sectors.

How profitable is dairy farming?

The following extract from a study illustrates, in practical terms, the problems connected with incomes in the dairy sector.

The calculations of the Hessen-Nassau Landeskontrollverband give a clear indication of the profitability of dairy farming. The total costs incurred by mixed farms using 30-59% of their UAA[1] for the cultivation of fodder amount to 37.2 Dpf per kg. This figure breaks down as follows:

Costs	
Concentrated feed	13.6 Dpf per kg milk
Basic feed	10.8 Dpf per kg milk
Miscellaneous costs	4.7 Dpf per kg milk
Pro rata building and machine costs	8.1 Dpf per kg milk
Total costs	37.2 Dpf per kg milk
Earnings	
Basic price	57.0 Dpf per kg milk
Calf value	6.7 Dpf per kg milk
Total earnings	63.7 Dpf per kg milk

The above table clearly shows that average farms in this group derive an income of 26.5 Dpf from their capital and labour. For a basic price of 57.0 Dpf this amounts to 46.5% of the price obtained

[1] Utilized Agricultural Area

for the milk. However, this figure would not be as favourable if labour costs had been included in the calculations. In practice the wage costs of a professional dairyman can be absorbed only by farms with more than 60 dairy cows. In other words, labour-intensive dairy farming will continue to be mainly the preserve of family holdings.

The following principles are crucial to the profitability of dairy farming:

(a) Dairy farming has a favourable effect on the liquidity of the undertaking. The regular monthly income from milk makes it possible to pay all current commitments promptly. In competing sectors, for example beef cattle fattening and the keeping of nurse cows, the farmer often has to tie up his money for weeks or even months before he can plough it back into the business in the form of sales proceeds. It is often mere coincidence if sales are made at a time when prices are high (and this can be a matter of crucial importance to the success or failure of the enterprise).

(b) The profitability of dairy farming hinges on the milk output of the cows. The yield of dairy cows varies more from individual to individual than output of any other animal. Thus, breeding should be allowed only between bulls which are known to have good genetic characteristics and dams with a milk yield of at least 4,000 litres per year.

(c) Expenditure on basic and concentrated feed accounts for the largest proportion of costs (24.4 Dpf per kg). Every farm should therefore try to obtain the highest possible milk yield from the cheaper basic feed. However, no more than 7-10 litres of milk per day can ever be obtained in winter on basic feed. Concentrated feed must therefore be supplied in order to obtain full benefit from the cow's additional reserves.

(d) With small herds the overheads for milk production are high. In larger farms the fixed overheads can be offset against larger quantities of milk. Labour-saving devices such as milking machines or milking stalls are profitable only with large herds.

(e) Investments in dairy farming are economically justifiable only if the annual costs (depreciation, interest, repairs, operating costs) are lower than the value of the labour which they save and which can be put to productive use elsewhere.

The payment capacity of dairies which, for cooperative undertakings is determined by the differences between sale proceeds and the overall costs of milk collection and processing, is naturally a crucial factor in the profitability of dairy farming. Even though the prospects of further rises in milk prices look bleak, competitive sectors (given the present price/cost ratios), in most cases offer no alternative to dairy farming. As the analysis by the Hessen-Nassau Landeskontrollverband also shows, the yields of many farms could be further increased by improvements in feeding methods, livestock, forms of husbandry and the monitoring of progress control.

Given the fact that feed accounts for the greatest proportion of costs, a case can be made for encouraging more extensive, low-cost production methods rather than increasing productivity.

II. FACTORS INFLUENCING PRODUCTION

1. Number of producers

At the end of 1976, some 2 million dairy farmers in the Community owned a total of approximately 24.9 million dairy cattle, that is, an increase of 0.8% over the previous year. Although in relative terms the total number of dairy cattle in the Community is subject to only very slight fluctuations, milk production rises with the continual increase in yield per cow. The average yield per cow is caused above all by the improvement in the dairy herds and more rational utilization of green fodder, the wholesale use of mixed feedstuffs with a high food value and, in general, by technological development. The average yield per cow increases annually by some 1.4%. In 1976, the yield was 3,785 kg milk per cow compared with 3,648 kg per cow in 1975. In the first half of 1977 milk production is expected to increase by some 0.3% only, compared with the first half of 1976 because of the shortage of fodder at the beginning of the winter and the cold spring weather but this situation is also expected to change in the second half of the year so that the level of milk production will be approximately 5% above that of the previous year. The area of pasture has been decreasing steadily, 2.1 per cent from 1970 to 1974.

2. Conditions of competition and nature of costs

In dairy farming the system of total competition obtains. This means that on the supply side of the market there are a large number of producers who are unable to affect the market at all individually. Given these market conditions, it seems reasonable that each individual producer should expand his production although considerable surpluses exist already. By far the largest costs in agriculture, and even more so in dairy farming, are fixed costs. As a rule, most capital goods cannot be used in other economic sectors, or at best with only minimal profit. Consequently a price reduction has scarcely any effect on the volume of production. A price increase will generally attract few new production resources although the effect of a price increase may be proportionally greater than that of a decrease. Total competition and the nature of production costs in dairy farming are more or less structurally defined. Together with the low price and limited income elasticity connected with the demand for milk products and the technological development in milk production, these factors play a part in the structural imbalance in the dairy sector.

TABLE 6

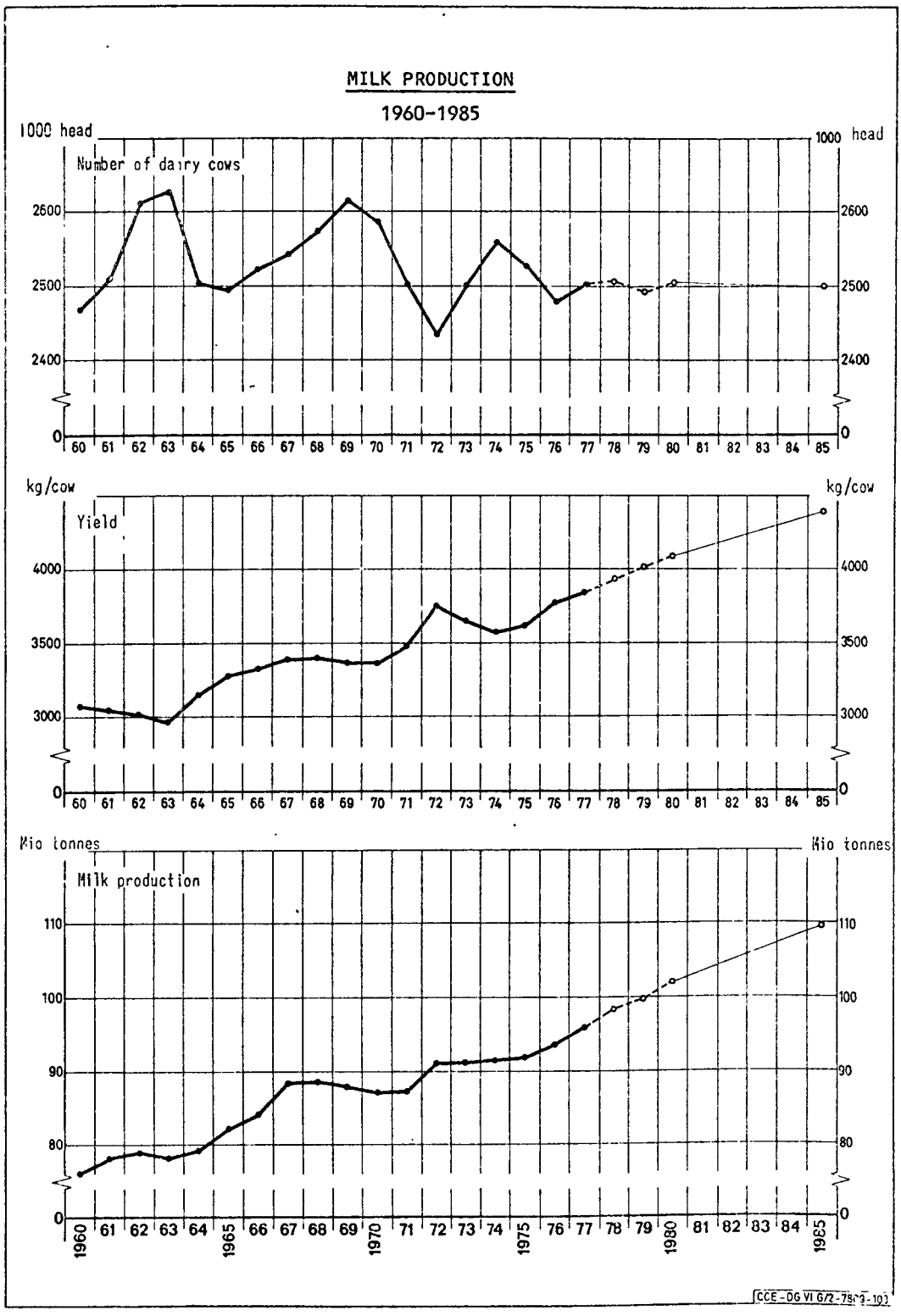

MILK PRODUCTION
1960-1985
1000 head
Number of dairy cows
1000 head
2600
2500
2400
0
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85
kg/cow
Yield
kg/cow
4000
3500
3000
0
Mio tonnes
Milk production
Mio tonnes
110
100
90
80
0
1960 61 62 63 64 1965 66 67 68 69 1970 71 72 73 74 1975 76 77 78 79 1980 81 82 83 84 1985
CCE-DG VI G/2-78

TABLE 7

THE STRUCTURE OF CATTLE AND DAIRY FARMING IN THE COMMUNITY

- 1973 -

COUNTRY	Proportion of cattle farmers on farms ⩾ 1 ha	No. of cattle farmers	Cattle herds	No. of farms ⩽ 19 cattle	Proportion of cattle in farms ⩽ 19 cattle	Proportion of dairy cows in cattle farming	No. of dairy farmers	Dairy herds	Proportion of farms ⩽ 9 dairy cows	Proportion of dairy cows in farms ⩽ 9 dairy cows
	%	1,000	head	%	%	%	1,000	head	%	%
Federal Republic of Germany	73	710	20	62	26	89	630	9	66	34
France	70	913	26	54	18	76	697	11	53	22
Italy	45[1]	912	9	91	51	67	607	5	88	47
Netherlands	76	113	44	28	7	88	99	23	24	5
BLEU	93	111	29	47	14	81	90	12	50	19
EEC (6)	61	2579	21	72	24	77	2123	9	66	27
UK	75	215	69	30	4	43	93	38	21	2
Ireland	86[1]	229	28	45	19	63	144	10	67	23
Denmark	64	87	34	38	11	83	72	15	36	12
EEC (9)	63	3290	24	63	19	74	2432	11	63	23

[1] Total number of farms ⩾ 1 ha for 1973, estimate based on 1970 data

Source: Eurostat: Agricultural statistics 3/1974 and 6/1974

Table 8

Developments in dairy farming in holdings of various sizes

	Dairy farms as a percentage of all holdings covering an area of ..... to ..... ha					
	0-5	5-10	10-20	20-50	50 and over	Total
			- % -			
Germany						
1960	51.7	96.4	98.1	97.6	94.0	72.5
1971	38.2	80.6	88.6	86.3	60.4	66.4
1973	25.8[1]	73.7	84.2	83.2	57.4	56.0[1]
France						
1963[2]	33.1	79.9	90.5	100.0	91.1	73.2
1969	29.7	72.9		74.8	61.7	59.9
1973	17.4	50.0	60.5	72.0	59.3	47.8
Netherlands						
1959	32.5	90.7	94.8	90.8	72.2	82.2
1970	23.6	73.7	87.3	78.4	44.5	56.5
Belgium						
1973	25.1	77.2	87.5	87.2	67.6	54.3
Denmark						
1971	28.3[1]	58.0	73.8	74.0	64.8	65.2[1]
1973	21.6[1]	48.8	67.0	70.5	63.7	59.2[1]
	Rates of decrease in dairy farming in the various sizes of holding					
Germany						
1960	100	100	100	100	100	100
1971	74	84	90	88	64	92
1973	50	76	86	85	61	77
France						
1963[2]	100	100	100	100	100	100
1969	90	-	-	75	68	82
1973	53	63	67	72	65	65
Netherlands						
1959	100	100	100	100	100	100
1970	73	81	92	86	62	69
Denmark						
1971	100	100	100	100	100	100
1973	76	84	91	95	98	91

[1] Only holdings of more than 0.5 ha [2] All holdings with cows [3] 1970

3. Production structure

The fact that almost half the holdings in the Community produce milk, which means that for almost 2 million dairy farmers milk production is frequently the largest source of income, itself clearly indicates the structural problem in dairy farming. The number of cows per holding (around 11 for the Community as a whole) is lower than the number necessary to guarantee producers a reasonable income. This problem is clearly illustrated by the fact that more than two-thirds of the farms have less than 10 cows. Some 2% of the holdings have a herd of more than 50 cows and together represent almost one sixth of the total number of cows. This means that approximately 1.5 million producers possess less than 10 dairy cows or together around 20% of the total dairy herd. The average number of animals per farm varies from 5 in Italy to 70 in Scotland, while in the Netherlands it averages 23 cows per farm. In general, the number of dairy cows in the Community's specific dairy areas (areas where the permanent grazing amounts to more than 50% of the cultivated land) has increased by some 25% in the last ten years, whereas in the areas where dairy farming is not the major occupation (areas where the permanent grazing is less than 25% of the cultivated land), it has fallen by almost 20%. In Italy the agricultural structure is less geared to milk production and there are approximately 5 cows per farm. Although Italy has four times as many inhabitants as the Netherlands, it produces less milk. Italy is therefore a large net importer of milk products. Given the deficient structure of dairy farming it is hardly surprising that the income of dairy farmers does not reach the same level as that in other agricultural sectors and that the profitability of milk production leaves much to be desired. Although the total size of dairy herds in the Community has not altered radically, the structure of dairy farming has evolved considerably in the past. This has led in particular to a reduction in the number of dairy farmers and an increase in the average number of cows per farm, little change in the total number of dairy cows, a greater concentration of milk production in areas with a large amount of permanent grazing and a continuing increase in total milk production in the long term of approximately 1.7% because of a constant increase in the yield per cow. The annual increase in milk production, therefore, is not caused by an increase in the size of dairy herds but rather by the high yield per cow achieved by the large-scale use of concentrated feedstuffs with a high food value and the improvement in the health of the dairy herds.

A summary of the structure of beef and dairy farming in the Community is given in the table on the following page.

The increase in the size of the farm permits the use of modern techniques for housing and feeding animals and for collecting milk (tanks on the farm, collection by tanker truck), while the need to amortize invested capital (whether the farmer's own or borrowed), induces a continuing intensification of production. Farms of this kind may, consequently, be expected to be much more sensitive to variations in price.

4. The dairy industry

For its part, the dairy industry is undergoing concentration on two fronts. Between 1960 and 1976 the number of dairies fell by more than two-thirds; this trend was combined with the rapid increase in the average per unit capacity which led to increased rationalization; the need to amortize invested capital meant that the dairy had to collect enough milk to allow the optimum use of equipment and explains why most dairies are opposed to any measure reducing milk deliveries.

There are some 7,000 dairy factories in the Community of which about half are in Italy. Since 1965 the number of dairy factories has decreased by roughly half as a result of a large-scale improvement in productivity and modernization. Since then, concentration and modernization has entailed a continuing decrease in the number of factories. Rationalization aims at cutting processing costs and applying modern techniques more effectively to the production of products with a high added value. However, it has been noted that rationalization measures are no longer effective if the subsequent savings in production costs of milk and dairy products do not cover the rise in transport and distribution costs. If this is not taken into account, then the concentration of the dairy industry is disadvantageous to producers whose milk is bought at relatively low prices.

The supply of milk to the factories is increasing more rapidly than milk production itself. From 1968, when the common organization of the market for milk was set up, milk deliveries increased by 17.5% whereas milk production itself increased by only 8%. At present, some 90% of the milk produced in the Community is delivered to the factories and this percentage is still increasing, since the local processing on the farm of milk into butter and cheese is continually decreasing. This structural development also offers a partial explanation as to why surpluses exist.

The factories process the milk delivered to them more efficiently than the farms where this requires a large work force. In the dairy factories, the skimmed milk, which is a by-product of butter manufacture, is generally processed into skimmed milk powder whereas on the farms the milk is used mainly for feeding cattle. The surplus milk delivered to the factories which cannot be sold on the market is processed into industrial products (butter and skimmed milk powder).

5. Capital formation

There is little information available on trends concerning capital in agriculture. It is however an established fact that the decline in the farming population is accompanied by intensive capital investment in agriculture. One study made in Belgium indicates that the level of capital per labour unit increased by over 65% in the period 1962 - 1972. When compared with the development in overall agricultural production it becomes clear that capital is of key importance to the structural development of the farming sector. In the Belgium example, while the farming population fell by 40% in the decade, production per labour unit increased by 60% due mainly to intensified investment. At the same time it is quite clear that because of the varying intensity of land use in the Community, the Belgium information cannot be applied generally.

Given the limited opportunities for self-financing in agriculture, loan interest rates will have a decisive effect on the profitability of the sector and its structural situation.

Many European governments have taken measures designed to stimulate agriculture production, such as interest rate subsidies for fodder oil, fertilisers, irrigation, land reclamation etc. In addition cooperatives and other farming organisations may provide loans at interest rates considerably lower than the normal market rate.

Community and national policies and producer organization provisions have a great influence on the increase of agriculture output and milk yields per cow and labour unit.

6. Technological developments

The problem of surpluses in the agriculture sector can be said to largely originate from a technological progress which has resulted in an increase of labour productivity greater than anywhere else in the economy. Technological progress has made milk production increase rapidly while demand has remained constant, thus leading to the surplus situation.

7. Imports of grain and feed stuffs

The increase in the use of concentrates is a major cause of the greater milk output in Europe. The production of cattle compounds in the Community increased in the following way :

1961	6.31
1965	8.73
1970	13.73
1972	15.37
1973	16.87

Since 1 kg of concentrates yields at least 1.5 kg of milk, the existence of a milk surplus in the Community can be largely contributed to the increased consumption of oil cakes. The vegetable foods are imported at zero duty (oil seeds) or at a low customs duty (oils). The milk/soya price relationship has been extremely advantageous to milk production since 1968 and constitutes a strong incentive to increase and intensify milk production.

The increased use of oil cake, in conjunction with investment and technological progress, has led to a steady increase in milk production due to the growth in yields. The average yield per dairy cow has risen by about 1.4% per year.

The advantageous position of the imported oil cake is an additional reason for the reduction in the animal consumption of skimmed milk as powder or liquid.

For this reason in some European countries (Finland, Switzerland and Norway), an attempt is being made to restrict milk production by making feed grains and oil cakes.

8. Other factors

III - DIVERSIFICATION POSSIBILITIES

In order to put an end to milk lakes and butter mountains without creating new social problems, production could be diversified either between the dairy and other sectors or in the dairy sector itself.

(A) Between the dairy and other sectors

Conversion premiums or temporary aid could be granted to give small dairy farmers a higher standard of living than at present.

There are various ways in which this could be done:

- The first and most obvious is to convert dairy herds to meat production.

  This would have three immediate effects:

  . firstly, the Community could become self-sufficient in meat. Consumption of meat tends to increase as the standard of living rises in the least-favoured regions of the Community.

  . secondly, existing animal protein stocks could be used up and powdered milk stocks reduced,

  . finally, if powdered milk were cheaper than soya, it would be possible to reduce soya imports - which would enhance the Community's balance of payments - and lessen the Community's dependence on third countries.

- There could also be more intensive conversion in the agricultural sector, i.e. farmers could be encouraged to cultivate products, e.g. vegetable proteins, in short supply in the Community. However, this creates more complex problems than the previous solution since a fairly large land area would have to be cultivated to make farming more profitable than previously.

  Finally, farms could not be converted uniformally throughout the Community since conversion depends on the geographic situation and the nature of the soil.

In which areas should milk production be maintained

In 1975, the total utilized agricultural area in the Community was 93.3 million hectares. More than half this area consists of grazing and is used for dairy farming. An enquiry will later be carried out into the possibilities for alternative utilization of the areas which are used for dairy farming. This really means investigating in which

areas of the Community dairy farming can be ended or strictly limited and in which areas the retention of milk production seems justified even in the long term. In taking a decision as to whether milk production in a certain area is necessary and/or desirable, the following factors must be borne in mind:

1. The natural climatic and soil conditions which must largely be accepted as unalterable.

2. Structural factors such as the size of holdings and the number of people employed in agriculture, together with the production capacity and the technical level of the holdings which can only be modified gradually and over a long period.

3. The general economic situation outside agriculture, together with potential sources of employment in other economic sectors and the economic and social infrastructure which likewise cannot be easily changed in the short term.

In general, cessation of milk production can only be successful if the dairy farmers can find genuine alternative sources of livelihood inside or outside agriculture. In practice, the large holdings are most capable of adjusting their production structure, giving up dairy farming and changing to a more efficient structure. Partly because of the scarcity and increasing costs of manpower, medium-sized arable farms could replace dairy farming with its labour-intensive cattle feeding; combined with the production of sugar beet and cereals, this would lead to a more efficient utilization of production potential. Dairy herds are decreasing, especially on the large cereal farms in France and Germany. But even in areas where small farms predominate, the number of dairy farmers and dairy cattle can be cut back without too much difficulty if there are alternative sources of livelihood outside agriculture. Given a complete cessation of farming or a change to extensive crop cultivation without cows, the dairy herds in these areas will decline, even if the remaining farms increase their herds. The fall in the number of dairy farmers is, therefore, relatively greatest in the areas where grazing land is in short supply and therefore does not represent a restrictive factor for more extensive crop cultivation. This process of adjustment appears to occur largely independently of the level of and trends in milk prices. The holdings which are located specifically in grazing areas are under pressure to carry out maximum rationalization in the size of their dairy herds so as to achieve optimum production. Since some

holdings are obliged to continue dairy farming, given their situation in grazing areas and their size, others must give up their share of milk production so as to reduce the present imbalance in the market. This should be brought about by eliminating small dairy herds of 1-10 or 20 cows. However, this is still not sufficient to eliminate the surpluses in the dairy sector. Since the average yield per cow is increasing, the cessation of milk production must exceed any uncoordinated growth in dairy farming. As already stated, the large holdings offer the most profitable production alternatives. If holdings with more than 50 hectares and herds of less than 50 cows could be persuaded to change their production, the smallest and large farms together could take approximately 2.7 million cows out of production and the market would be put on a considerably sounder basis.

Only if due account is taken of alternative sources of livelihood can we carry out a programme to restructure dairy farming which is more effective than that resulting from the uncoordinated adjustments made in the past, for example by financial incentives, without planning imposed from above. An attempt might be made to split up the Community into individual areas, although naturally without strict compartmentalization; this could provide a basis for the pursuit of a regionally adjusted policy to rationalize the dairy market.

(a) Grasslands and grazing with productive dairy farming where the producers are largely dependent on milk production and derive their income almost exclusively from milk production.

The relatively small average size of farms hinders a changeover to other types of agriculture which are tied to local conditions. In 1974, these 'dairy areas' contained approximately 30% of the Community's dairy herds. It would seem logical to continue concentrating and encouraging milk production in these areas which lend themselves to it.

(b) Mountain and other less-favoured areas, within the meaning of Directive No. 75/268.

Agriculture in these areas is of course covered by special regulations which also relate in part to dairy farming. To avoid conflicts between agriculture and measures taken under the regional policy, it is very important that the consequences for the dairy market of existing measures should be investigated and that new instruments being considered with a view to reorganizing the dairy

market should take account of the special situation of these areas from an agricultural as well as other points of view. In 1974, approximately 15% of the dairy herds were to be found in these less-favoured areas.

(c) Areas offering alternatives to dairy farming within the sphere of cattle farming.

This category includes areas in the United Kingdom which in part exhibit the same characteristics as the 'dairy areas' but are nevertheless less-favoured within the meaning of Directive No. 75/268. However, these areas differ from the first two categories because on average the holdings are considerably larger. The conditions for a changeover from dairy farming to other crops for which the soil is suitable, can therefore generally be considered more favourable than in the specific 'dairy areas'. These areas had some 9% of the Community cattle herds, amounting to 2.2 million dairy cattle.

(d) Efficient structural areas with various alternatives to dairy farming.

In such areas we can start from the principle that a large proportion of the dairy farms are capable of changing from milk production to other production sectors without any great loss of income in the long term. In most areas of this category it would also be easier to find activities outside agriculture than in the majority of the areas in the other categories. It would therefore appear justified to increase still further contribution of these areas towards a reduction in dairy herds, and operations leading to a lasting reduction in dairy herds and milk production should be concentrated here. In 1974, 31% of the Community's dairy herds were in these areas.

However, encouraging a structural changeover in farming could result in an imbalance on other markets since the farming structure in the areas which appear most suited to a changeover scarcely permits profitable intensive agriculture or cattle-farming. Within the cattle-farming sector, concentration can indeed be encouraged by granting premiums for particular kinds of animal, but these would only be appropriate for very large holdings which are suited to this production from the outset because of natural conditions. In particular, holdings in efficiently structured areas where the utilized agricultural area is mostly very extensive should attempt to convert to crop production. However, this can only be achieved on a competitive basis if intensive production methods are applied.

Despite objections to a possible shift of the surplus problem from one market to another, it must be stated that it is simpler and less expensive for the Community to sell cereals outside the Community than milk products for which the world market is very limited.

Relationship to production in the beef sector

In a study organized by the Commission of the European Communities an attempt has been made to indentify those factors which are mainly responsible for imbalances in the Community's milk/beef sector and which point the way to future agricultural policy initiatives in this area.

The following extract relates to the correlation between milk and beef production.

The ratio between the producer price for beef cattle and the milk price paid to the farmer was for a long time considered to be the key factor in determining whether cattle were kept for milk or beef production. In 1961, for example, a study group investigating the technical scope and economic conditions for beef production in the Member States of the Community came to the conclusion that the beef/milk price ratio in all countries had a decisive influence on the decision whether to produce meat or milk. It was thought that if this ratio exceeded 7:1 the effect in all countries would be to stimulate beef production more than milk production. However, actual developments failed to confirm this theory. Although beef production did in fact rise with higher prices for beef, this increase was not in general accompanied by a fall in production in the milk sector. Instead, it was largely due to the better utilization of calf production, i.e. to a reduction in the number of calves slaughtered and an increase in the fattening of beef cattle. As has already been pointed out several times, small-scale farming prevents, or at least impedes, any change from dairy cows to breeds mainly intended for meat production. In areas where dual-purpose breeds predominate, it is reasonable to assume that high prices for beef cattle will in fact stimulate milk production. There are several reasons for this:

- the profitability of milk production is influenced inter alia by the sale of calves;

- high prices for beef cattle stimulate demand for bullocks and thus lead to increases in calf prices;

- good sales prospects for calves encourage the intensification of dairy farming in an attempt to increase calving rates. This in turn inevitably leads to increases in milk yield;

- high prices for beef cattle also enhance the sales prospects for culled cows, which again improves the profitability of dairy farming.

Needless to say, the increases in milk prices motivated by incomes policy have also made it extremely difficult to achieve any lasting improvement in the beef/milk price ratio, and the conversion threshold has consequently almost never been reached. But in any case, for the reasons mentioned above it is far from certain that a lasting improvement in the price ratio would in fact have had any appreciable effect on the development of supply. It is impossible to say, at least on the basis of general national data which apply to widely varying production areas and inevitably neutralize differences in regional and local trends, whether the ratio concerned has any influence at all on the choice between beef and milk production. 'Moreover, it is possible that, for any given country, the study of the attitude of farmers to production might well lack precision inasmuch as it is based on weighted national data'.

The results of model calculations relating to cattle farms in various Community locations (dealt with separately elsewhere) show, however, that even on structurally sound holdings with production alternatives a change in the milk/meat price ratio in favour of meat will lead to a switch to the production of cattle for fattening and an appreciable reduction in stocks of cows only if quite specific conditions apply.

Thus, for example, optimalization models confirm the previously suspected tendency for a change in the price ratio to tip the balance in favour of conversion at any given time when such action has already been planned for other reasons (e.g. depleted workforce as a result of a change-over to casual labour).

Developments, however, outside the European Community, particularly the USA, show that, with structural conditions being equal, other factors manifestly play a much more important role in conversion in the cattle farming sector than the ratio between the beef price and the milk price. In a period when the price ratio between the two products was relatively unfavourable - a situation which became even worse between 1950 and 1972 - beef production increased by 95% and milk production by only 2.6%. At the same time the proportion of dairy cows in cattle stocks as a whole decreased from about 59% to about 23% while the number of beef cows increased by 132%.

(B) Non-agricultural activity

Another solution would be to encourage developments in the secondary or tertiary sectors:

. In the first case, the public authorities should encourage the establishment of small or medium-sized industries in rural areas. For the experiment to be a success, however, certain habits would have to be overcome, psychological attitudes changed and appropriate educational and training measures taken before factories were even built.

. In the second case, tourism should be encouraged in rural areas. Alternative employment could then be created in trade or the hotel industry. Arrangements could even be made for tourists to live in farms converted for the purpose with public funds. Tourism could thus make up for the revenue lost by small farmers when they gave up dairy farming.

(c) In the dairy sector

In addition to these solutions, diversification within the dairy sector is possible and desirable.

The development of milk processing activities in dairies, cheese factories etc. must be encouraged.

In its 1977-1980 action programme, the Commission states that the consumption of liquid milk and fresh products such as yoghurts and butter is decreasing but that the consumption of cheese is rising because it is not subject to constant competition from other products.

The dairy sector should therefore conduct a marketing campaign and offer products that meet with present and future consumer approval. In short, dairy products must be made more attractive. Similarly, experiments must be conducted to find out how far whole milk can be used instead of skimmed milk in the production of certain products in order to reduce stocks of milk powder.

A far-reaching diversification of production would require a revision of the market organization for milk and milk products, so as to bring about a reduction in the price of those dairy products, cheese and butter, for which additional demand can be anticipated.

IV. FACTORS INFLUENCING CONSUMPTION

1. Distribution channels and dietary habits

The trend in demand for agricultural products is determined by such factors as demographic changes, the standard of living, the marketing system and the price of the products concerned. It has been found that as per capita income in the highly developed industrial countries increases, more and more food products come within the category of 'inferior' goods, which means that consumption of these products in fact falls rather than increases as incomes rise. This phenomenon applies not only to foodstuffs of vegetable origin but it appears that consumers with a high standard of living are also less inclined to purchase animal products and particularly milk products. This is related to a transfer of demand from milk proteins to meat. It appears that consumers are attaching less and less importance to income and price in determining the pattern of demand for milk products. Accordingly, while the price of milk products no longer plays such an important role in determining consumption patterns, factors such as need, degree of saturation, value to health, taste and ease of purchasing are becoming decisive.

As to the influence of distribution channels on milk sales, it appears that the selling of milk in supermarkets reduces the total sales of drinking milk. Shop sales of drinking milk are lower than those made by house deliveries. The delivery trade has meanwhile had to abandon part of its business partly as a result of the price differential between milk sold by the delivery trade and supermarkets. There is thus a danger that house deliveries of milk will disappear on the one hand because supermarkets have laid greater emphasis on skimmed and semi-skimmed milk in accordance with changes in consumer demand and on the other because of the difference in the prices charged by supermarkets and the delivery trade. The disappearance of house deliveries of milk must for social reasons be regarded as undesirable because of the difficulties it creates for certain

CONSUMPTION PER HEAD OF CERTAIN SELECTED PRODUCTS

1960-1985

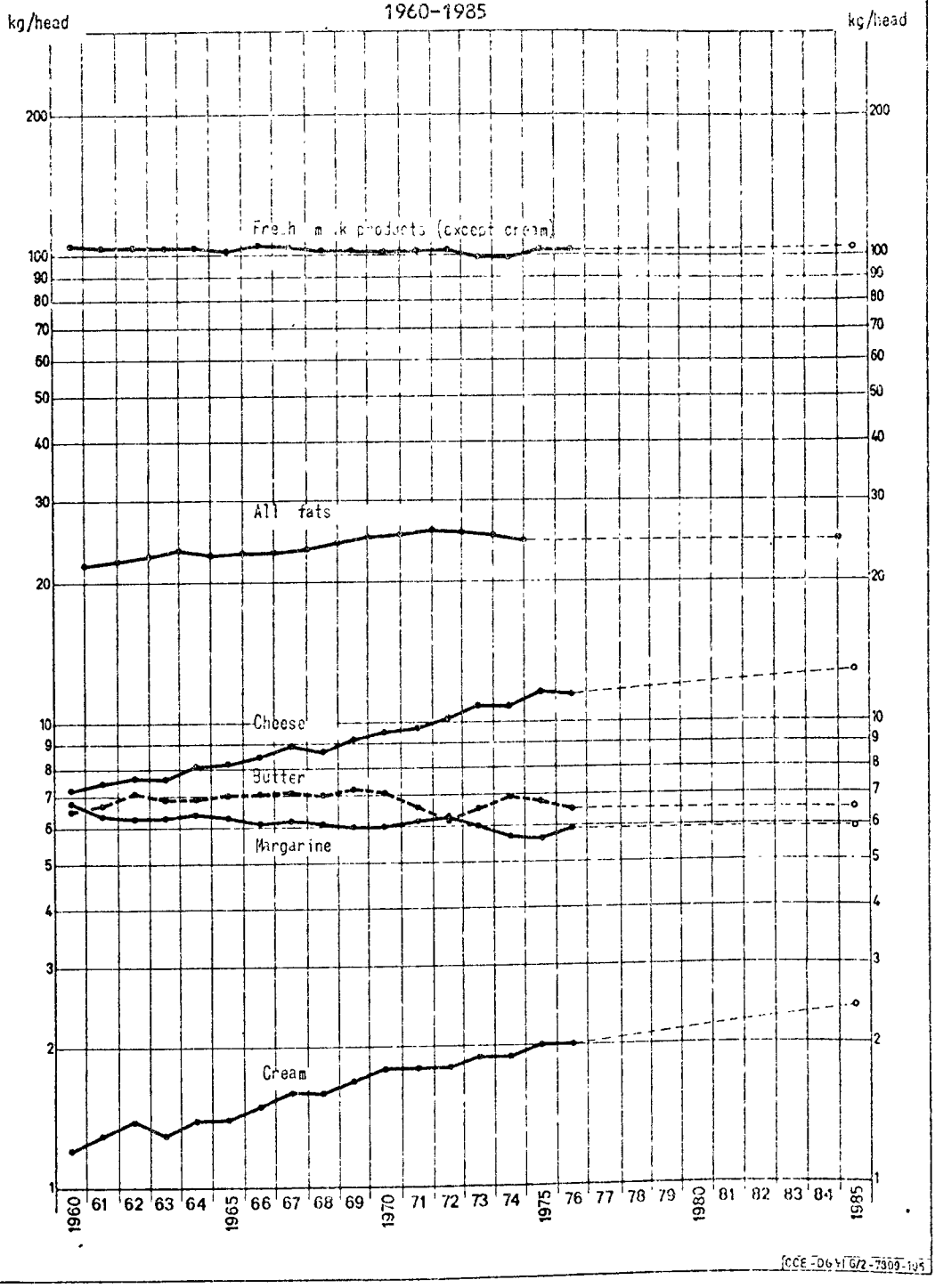


TABLE 10

SKIMMED MILK POWDER PRODUCTION AND CONSUMPTION FOR THE COMMUNITY

(1960-1985)

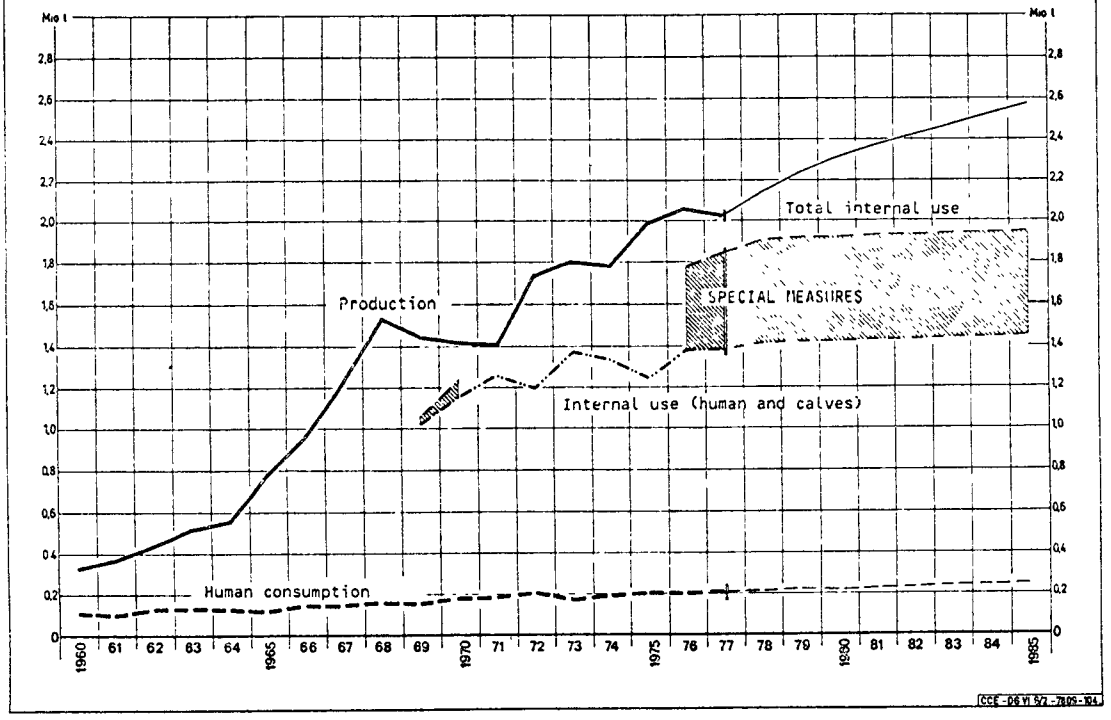
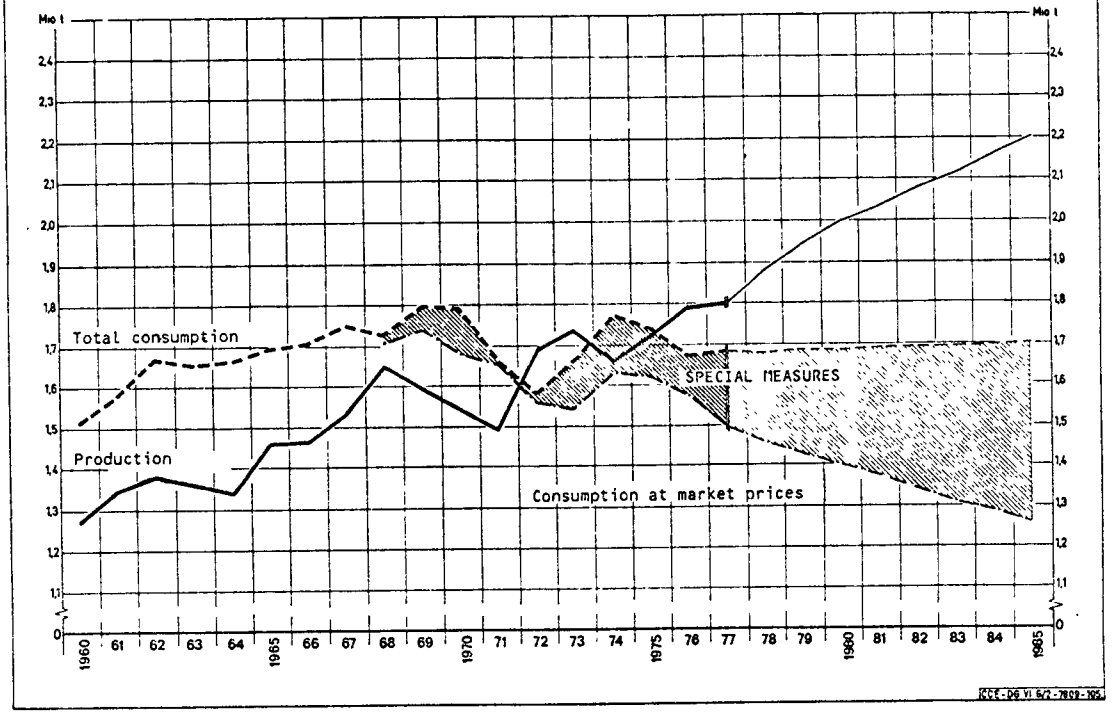


TABLE 11

BUTTER PRODUCTION AND CONSUMPTION FOR THE COMMUNITY

(1960-1985)



sections of the population such as the elderly, mothers with young children and invalids.

Quantitative data on the impact of factors influencing consumption are largely inexistent, however, and it is therefore difficult to make reliable forecasts of consumption in the long term. Not only is consumption of drinking milk falling, but also the per capita consumption of products such as yoghurt under the influence of competing products. The consumer preference for cheese is holding however, since it clearly satisfies consumer requirements with regard to quality and taste better than other dairy products. Butter consumption is showing a similar downward trend being replaced by vegetable fats occupying a stronger competitive position vis-à-vis animal fats. Even if cheese consumption continues to develop favourably in the future this would be far from sufficient (in view of the further fall in butter consumption) to stabilise total dairy consumption at the present level.

TABLE 12

EEC CONSUMPTION DAIRY PRODUCTS 1974-1978

(1,000 tonnes unless otherwise stated)

PRODUCTS	1974	1975	1976	1977	1978
Fresh products					
except cream			26,589	26,191	
kg/head/p.a.			102.7	101.0	
cream			.53	.55	
kg/head/p.a.			2.0	2.1	
Butter					
- normal price	15,977	1,673	1,613	1,538	1,500
- reduced price				72	70
special measures	141	125	107	102	150
kg/head/p.a.					
Cheese					
kg/head/p.a.			10.7		
Skimmed milk powder					
- market price	209	203	220	240	240
- subsidized	1,143	1,047	1,177	1,174	1,200
special measures			407	406	500

In the fats sector typical changes are taking place in the structure of consumption and demand. Industry requires increasing quantities for manufacturing the convenience foods for which the modern housewife now has a great need. A new dietary consciousness engendered by the advertising campaign on this subject has meant that in order to compensate for the increased intake of animal fats from protein-rich animal products, consumption of fats has been reduced and preference given to products containing a large percentage of unsaturated fatty acids. This has naturally strengthened the consumption position of margarine relative to butter, bearing in mind that this process of substitution was stimulated by the difference in price between the two products. The general price competition between animal and vegetable fats plays an important role here. Comparing the price and per capita consumption of these products in recent years, it appears that butter consumption has been reduced and that margarine has profited from this. It does however seem that margarine prices were not solely responsible for this substitution but in the first instance the increased price of butter. In addition to this direct relationship between vegetable and animal fats, vegetable fats can also replace animal fats as an ingredient in other food products such as edible ice, coffee, milk and diet foods in powder form. This substitution has so far, however, been kept within limits by some fairly restrictive legislation. One must therefore come to the conclusion that the consumer, except in the case of cheese, clearly has a preference in his consumption pattern for low fat milk products.

As stated above, total milk consumption in the Community is showing a downward trend as incomes increase and therefore has negative income elasticity. It should be noted that this increase in incomes which has a negative effect on milk consumption has on the other hand stimulated the consumption of beef. However, this in turn has further repercussions for the milk market since the largest part of the Community's meat supply is drawn from dairy herds.

Dietary habits in the Community differ considerably. It is therefore not surprising that the average French consumer drinks 50 times as much wine and 3 times more milk per year than the Irish consumer and that the Italian housewife uses twice as much vegetable fats and oils and four times less butter than her Irish counterpart. These changes in dietary habits are, as stated above not attributable solely to increased incomes but also to the new supply opportunities available following the integration of the Community agricultural and foodstuffs markets. Since 1963 intra-Community trade in agricultural products and foodstuffs has increased sixfold and the range of products offered to the consumer has widened considerably thanks to the greater economic area in which foodstuffs and trading companies can operate. The integration of the agricultural markets is, however, not always able to exercise its optimum influence on the development of consumption and dietary habits because of a number of factors of a permanent nature which lie outside the scope of the common agricultural policy. These factors include fiscal arrangements such as VAT percentages and excise duties, health legislation and price controls. These factors differ widely between Member States and consequently the position of consumers also differs as regards access to the common market.

2. Price and income

In developed countries when incomes increase, there is no corresponding increase in demand for most dairy products. There are exceptions, however, cheese in particular: consumption increased from 8.7 kg in 1968 to 10.7 kg in 1976.

On the other hand, price elasticity has been calculated at 0.4 - 0.6 for butter and cheese, the figure for milk being 0.1.

Clearly, therefore, as incomes rise, demand for cheese and certain other products will increase. If prices of butter and cheese are stabilized or reduced, demand for these products will increase. The impact of the butter subsidies in slowing down the decrease in butter consumption is a clear illustration.

3. Competition from substitutes

(a, b) Vegetable oils and fats and artificial products

One important element for the reorganization of the milk market is the fact that the vegetable oils and fats imported into the Community free of levies and import restrictions constitute constant competition for the animal fats and proteins sector. Animal products are brought on to the market via a long production process and with labour-intensive production methods, and are therefore from the outset in an unfavourable competitive position vis-à-vis raw materials of vegetable origin. Although the EEC's organization of the market shields the prices of animal products against world market levels, it does not counterbalance the effect of imports of vegetable oils and fats allowed into the Community duty-free. The price relationship between vegetable and animal fats and proteins leads to the replacement of animal proteins by vegetable proteins and a fortiori a higher milk yield per cow which, together with the declining use on farms of powdered milk for cattle fodder because of this substitution effect, means that the supply of milk fat and milk protein is actually increasing. Meanwhile of course there has been a fall in the demand for milk fat (butter) which is partly due to advertising claims that the consumption of butter is injurious to health. The Commission has finally begun to propose a more coherent policy in this sector - placing a levy on vegetable oils and fats. The European Parliament's views on this subject are to be found in the report by Mr De Koning on the package of proposals for the progressive achievement of balance in the milk market[1]. Although such a levy on fats would unquestionably help to reduce the above mentioned discrepancy, opponents of the levy contend that it will have no effect on the market situation since the competition between milk products and vegetable fats is not a decisive factor. Consumers will simply reduce their consumption of fats whether of vegetable or animal origin, while the levy will lead to a rise in prices to the consumer and have undesirable effects on the Community's trade, particularly with the developing countries.

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[1] OJ No. C 259, 4.11.1976, p. 31 - Doc. 343/76

In view of the fact that the producers of vegetable proteins are offering an increasingly wide range of products to comply with the particular needs of the processing industry, the position of these products may well become stronger. The result of this may be that the consumption of skimmed milk powder for cattle fodder in the Community will fall even further. Thus, in addition to the unfavourable price relationship for animal products, other factors do play a role in the replacement of milk proteins by proteins of vegetable origin. For some years research has been going on into the possibility of culturing protein-rich micro-organisms on the basis of hydrocarbons and other chemical products. These synthetic proteins are very rich in protein nitrogen and contain a large number of amino acids. Other advantages of this sort of protein are constant quality, easy storage and regular supplies. On average 1 kg of protein can replace between 1.4 and 1.8 kg of soya cake. Industrial research has led to the development of various manufacturing methods, some of which are still in the experimental stage while others have already been introduced on an industrial scale. There are already in the Community a few factories concentrating on the production of these protein substances. Different provisions are in force in the Member States for bringing these products onto the market. According to available information it can be estimated that the factories whose opening is planned by 1978 will have a production capacity of 850,000 tonnes. It should, however, be pointed out that implementation of these plans will largely depend on the way in which the market reacts to these products and on the relationship between the possible market price and the cost price.

4. Quality

As far as quality is concerned, three aspects may be distinguished:

- the hygienic quality of milk: it must not contain bacteria, nor have gone sour or deteriorated in any way;
- the quality of composition, i.e. of the fat, protein, mineral salt and vitamin content;
- the quality of packaging, presentation and processing. One need only look at the variety of dairy products available to realize the importance of this aspect: milk may be pasteurized, sterilized, standardized, skimmed, concentrated, powdered, flavoured in various ways, and enriched; there are also cream, ice cream, yoghurt and similar products, butter and cheeses.

By working on these three aspects significant improvements can be made in the quality of the finished product. The following points illustrate the scope that exists for improvements:

- strict hygienic checks on stalls, milk containers, processing machinery, etc.;
- combating diseases (brucellosis, leukosis, tuberculosis, etc.);
- improving the feeding of cows and the conditions in which they are reared;
- selective breeding, selecting stock giving a higher quality output;
- training milk producers in the various techniques;
- taking the quality into account when paying producers for their product;
- improving processing techniques, creating new products, improving the various types of packaging, ensuring more careful presentation, etc.

It is obvious that any improvement in quality which does not entail an excessive price increase will lead to increased consumption. Other special measures could lead to increased consumption on the basis of quality, for example:

- ensuring that the consumer is not misled into buying milk-free products in the belief that they contain milk. This is particularly important in the case of ice cream; according to a survey carried out by the FAO[1], 90% of all ice cream sold in Sweden does not contain milk but substitute products of vegetable origin; the corresponding figures are 75% in the United Kingdon, 50% in Japan and the Netherlands, and 45% in Belgium. As a matter of fact, this problem of ice cream is being discussed at present at EEC Council of Ministers level;

- as regards fresh milk for direct consumption, great importance attaches not only to strict compliance with the rules of hygiene in all its forms but also to the improvement and greater variety of milk flavours, particularly for children and young people, not least because milk is distributed in schools;
- as regards milk derivatives, in particular cheeses, high-quality established products should be protected by maintaining quality standards, extension of brand marks and the suppression of imitations;
- it would probably be possible also to do something about the freshness of the product, whether of milk for direct consumption or butter, by bringing pressure to bear on the agencies distributing it to the consumer.

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[1] Revue mondiale de zootechnie, No. 14, 1975, p.31.

5. Sales promotion

There can be no doubt whatever about the effectiveness of well-organized sales promotion campaigns in increasing the consumption of milk and its derivatives. One has only to think of the success achieved by the campaign mounted in the United Kingdom to prevent increased butter prices from leading to a fall in consumption. In fact, butter consumption rose from 400,000 tonnes in 1973 to 500,000 tonnes in 1975, despite a price increase of about 200%. As far as competition from non-member countries is concerned, it should not be forgotten that in 1976 New Zealand spent the astonishing sum of £1½ million in the United Kingdom on publicity for its dairy products.

Granted the usefulness and the necessity of well-run sales promotion campaigns, all that remains to be considered is how they might be financed and what form they might take.

There is no doubt as to the need to study the possibility of financial backing by the Community, whether directly through special campaigns organized by the Commission at European level, or indirectly through forms of partial reimbursement of the costs of national campaigns conducted by private persons or by national or regional bodies. The 'co-responsibility levy' which has been imposed on milk sent by producers to dairies could also help to raise the funds required, if it were to be strengthened.

As to the second point, namely, the most suitable forms of publicity, the first thing that should be done is to work out effective means of counteracting certain kinds of unfavourable and inaccurate publicity centring on disputed allegations that butter, and animal fats in general, are harmful to health, whereas vegetable fats, and margarine in particular, are to be recommended for their prophylactic properties against diseases affecting the heart and coronary arteries, against obesity, etc.[1] In addition, the powerful margarine-producing concerns often claim that their product is 'as good as butter' and 'as natural as butter'.

[1] See, e.g., Written Question Nos.601/76 and 423/75 by Mr Martens to the Commission of the European Communities, OJ No. C 162, 11.7.1977, pp. 3 - 4.

One of the first things to do at Community level is to try to issue regulations on this matter to prevent inaccurate publicity harming the image of natural products such as milk and butter, to the advantage of industrial products obtained by chemical processes which, if they are not damaging to health, certainly do not possess the properties some like to attribute to them.

Proper sales promotion campaigns should instead stress the dietary value of milk and its derivatives, the nutritional value of the protein in cow's milk, particularly for infants, and the digestibility and other qualities of these products. The effectiveness of these campaigns could be increased by making a careful selection of the persons at whom this publicity is aimed, particularly schoolgoers, and the media to be employed (television at the hours devoted to programmes for younger viewers, childrens' newspapers and magazines).

6. Enlargement of the Community

Because of the variables that have to be taken into account, it is difficult to say in advance whether the eventual enlargement of the Community with the accession of the three applicant countries, Spain, Greece and Portugal, will lead to an appreciable increase in the consumption of dairy products and consequently to a reduction of the present surpluses. It does not seem likely, however, that enlargement can lead to spectacular results in this area.

It is a fact that these three countries are not self-sufficient in regard to milk and dairy products and therefore have to import some from the Community. In 1974 imports of dairy products from the Community of the Nine were as follows[1]:

Milk and cream (including powdered milk)

	Tonnes	Value (in 1000 EUA)
Greece	82,400	35,442
Portugal	6,580	1,530
Spain	389,459	58,413
Butter		
Greece	915	802
Portugal	786	802
Spain	2,712	2,530

[1] Source : EUROSTAT - Foreign trade - NIMEXE 1974/A
Since Community exports to any one country do not appear in the statistics recorded under the various customs headings where their value falls below 100,000 EUA, the totals given here must be regarded as slightly lower than the real ones. For the 1974 value of the EUA in the national currencies, see p. 523 of the volume cited.

	Tonnes	Value (in 1000 EUA)
Cheeses		
Greece	2,685	2,502
Portugal	1,495	1,416
Spain	4,980	6,297

These figures are clearly inconsiderable in absolute terms. In comparison, total butter exports from the Community to non-member countries amounted in 1974 to 119,532 tonnes, of which those to the three countries in question (4,413 tonnes) represented only about 3.70%.

It may be noted that, in general, the imports of these three countries of agricultural products from the Community account for no more than 10-15% of their total agricultural imports, most of which consist of cereals and oils and oilseeds mainly from the countries of North and South America.

We shall now briefly consider the various factors likely to have some bearing on future Community exports of milk and dairy products to these three countries.

Dietary habits: The low per capita consumption of milk, the use of olive oil rather than butter (there is a growing trend, however, to substitute margarine and seed oils for olive oil) and the widespread consumption of cheeses made from goat's and sheep's milk indicate that if there is any increase in the consumption of dairy products, it will come only very slowly and as standards of living rise.

Protective measures: Given their deficit in food, these three applicant countries are compelled to protect their livestock herds. This means that they have to take appropriate protective measures to prevent massive imports of meat and dairy products from the other EEC countries, so as not to endanger even further their livestock resources. In this context the monetary arrangements to be introduced (monetary compensatory amounts?) will also be very important.

The present system: In the agreement with Spain provision has already been made for a commitment by that country to acquire from the Community 90% of its requirements in preserved, concentrated and sugared milk, and 25% of its butter requirements; no quantitative restrictions will be applied to cheeses. In the agreement with Greece provision has also been made for gradual reductions in customs duties on butter and cheeses. If these factors are added to the protective measures referred to above, it is evident that entry to the EEC is not going to lead easily to an immediate and appreciable improvement on the present position in regard to imports of these products.

Effect of the implementation of Community regulations: Even if the three countries in question put national price support measures for milk into effect immediately, it is likely that the implementation of the Community system of intervention and price support in the face of low per capita consumption will lead fairly rapidly to virtual self-sufficiency in these countries.

To sum up then, it does not seem likely that enlargement will lead in the short term to appreciable increases in consumption of dairy products. Any increase is more likely to be in the consumption of cereals, animal feedingstuffs and store cattle rather than of the products with which we are concerned.

7. Animal feedingstuffs

As regards animal feeding, one of the most significant features of the last decade has been the continual decrease in the use of liquid milk on the farm and the increase in the use of skimmed milk powder from the dairy cooperatives. Figures provided by the OECD[1] show the following trends from 1964 to 1974 in the nine EEC countries:

TABLE 13

Use of whole milk (a) and liquid skimmed milk (b) as animal feed (1000 tonnes)

	1964		1970		1974	
	(a)	(b)	(a)	(b)	(a)	(b)
Belgium	179	1,428	179	890	177	698
Denmark	200	2,434	125	1,756	125	1,398
France	5,513	4,546	6,504	1,423	6,612	928
Germany	1,958	6,681	1,447	4,391	1,071	1,883
Ireland	459	1,320	557	1,281	709	612
Italy	2,042	-	1,319	-	838	559
Luxembourg	11	94	6	75	5	16
Netherlands	300	211	170	222	150	26
United Kingdom	298	281	243	404	200	216
EEC total	10,960	16,795	10,550	10,502	9,887	7,720
EEC total (a)+(b)		27,755		21,052		17,607

Use of powdered skimmed milk as animal feeding (1000 tonnes)

	1964	1970	1974
Belgium	39	58	64
Denmark	37	36	25
France	140	410	388
Germany	127	248	249
Ireland	3	8	9
Italy	-	-	171
Luxembourg	0.9	0,8	0,9
Netherlands	-	168	223
United Kingdom	25	22	13
EEC total:	371,9	950,8	1,142,9

It must be added that the Commission calculates[2] that in 1975 the use of liquid skimmed milk for animal feeding decreased further by at least 20%.

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[1] MILK AND MILK PRODUCTS BALANCES IN OECD MEMBER COUNTRIES 1961/1974, April 1976

[2] COM(75) 399 final.

The reasons for this trend, which seems irreversible, are many and varied. In particular, we might mention the rationalization of the productive cycle, whereby milk produced on the farm is no longer processed on the spot but sent in bulk to the dairy cooperatives which take care of skimming and processing. From the cooperatives it is returned to farms no longer in the form of liquid skimmed milk but if it is returned at all, in the form of powder. Furthermore, the availability of cheap high-protein animal feedingstuffs, coupled with technical difficulties of various kinds, has further reduced the importance of milk for animal feeding.

Various measures have been adopted at Community level to try to reverse this trend. The history of the compulsory inclusion of skimmed milk powder in animal feedingstuffs decided upon by the Council of Ministers in March 1976 is well known. This led to a certain reduction in milk powder stocks, which from August 1976 to August 1977 fell from 1,384,000 tonnes to 1,042,000, but was later pronounced illegal by the Court of Justice and will probably give rise to a whole series of legal repercussions arising from claims for damages by animal feedingstuff producers affected by the regulation.

To the aids that have been in existence at Community level since 1968 for the use of liquid and powdered skimmed milk for feeding to animals, both directly and in compounded feedingstuffs, have recently been added special aids for the use of skimmed milk to feed animals other than cattle. In spite of the enormous amounts appropriated in the Community budget for these grants (in all about 561 million u.a. for 1976 and 467.7 million u.a. for 1977), there has been no reversal of the trend as yet.

More use ought to be made of milk as a feedingstuff (which is, after all, its most natural purpose) if there is to be any increase in milk consumption. With this end in view it will be necessary to devise other systems less complicated than those already existing in order to induce the producer to use it in this way.

V. Export possibilities

a) world market

Overall milk production has been rising slightly in recent years, while consumption of liquid milk has been stagnating. Market growth has occurred in other dairy products and in particular cheese, for which there has been a continuous growth in supply for many years to satisfy an ever-growing demand. In world terms butter and ghee have also shown a constant growth. In developed countries, however, output has remained stable and consumption has begun to slow down, resulting in a periodic accumulation of stocks. Output of evaporated and condensed whole milk has shown a declining trend, but the output of whole milk powder has expanded with interest centred on skimmed milk powder. Output of whey is rising rapidly, though the quantities involved are small.

The international trade in cheese and butter takes place mainly between high income countries, while an important proportion of exchanges in produce such as evaporated, condensed and dried milk is exported by high income to developing countries.

The main factors determining demand in industrialised countries are : population, prices, incomes and food habits. In developed countries, population increases are relatively low and the impact of prices is most prominent in the short run with a low price elasticity for milk and cheese and a higher price elasticity for butter. Health campaigns and substitute products are playing an increasingly larger role. Demand is likely to remain static in North America and Western Europe, and most likely to expand in Eastern Europe and Japan.

(i) Fresh milk market

In most industrialised countries demand per capita is slowly declining for liquid milk. In North America the total size of the liquid market will most probably slowly contract.

(ii) Cheese

The growing demand for cheese has been virtually universal and an outstanding feature of the post-war era. The continuation for another ten to fifteen years of the very high growth of demand for cheese cannot be excluded. There may be a slight slowing down in Western Europe, North America and Australasia, with a growth rate of between 2% and 4%. In Southern and Eastern Europe growth will be slightly higher, from 3% to 6%.

TABLE 14

DAIRY PRODUCTS: EXPORTS, IMPORTS AND FOOD AID

1974 - 1978

(1,000 tonnes)

	1974	1975	1976	1977	1978
Skimmed milk					
1. Exports	264	58	68	153	120
Food aid	47	52	70	98	130
Special measures	-	35	28	170	150
2. Imports	2	10	1	-	-
Butter					
1. Exports	103	32	84	219	150
Food aid	32	36	34	51	51
2. Imports	157	160	132	120	125
Cheese					
1. Exports			201	208	180
2. Imports			104	89	95

(iii) Butter

It is likely that consumption per head of butter will remain constant and may even begin to decline after a certain period. A fall in butter consumption in North America is likely to continue.

(iv) Skimmed and whole milk powder

About 60% of the world output of skimmed milk powder is produced in the EEC, and Community policies are a key factor in determining supply. It is possible that Eastern Europe may enter as a supplier to a greater extent. North America uses relatively small quantities of skimmed milk powder for animal feeding. For skimmed milk powder demand will most probably continue to expand over the next ten to fifteen years and probably by less than the annual 4.5% recorded during the past decade, though this may depend on the relative prices of the different dairy products. East European countries and the USSR, and even certain Latin American countries, may become increasingly felt as competitors.

Demands stemming from increases in income in future years may be felt in OPEC countries and in other raw material rich developing countries. It is likely that whole milk and skimmed milk powder will be in highest demand in these regions, though demand for butter and cheese could be fairly important, notably in the Near East, Latin America and North Africa, and for butteroil and ghee in Asia.

In developing countries, consumption in 1969/71 was about 90 to 95 million tonnes, as against a production of 75 to 80 million tonnes. Demand by 1985 could rise by as much as 160 to 180 million tonnes, and even with a higher gross rate of indigenous production, a supply deficit of around 60 million tonnes could persist.

(v) Outlook

In Eastern Europe consumption and production are likely to show the same rates of growth which, when taken with climatic hazards, may indicate irregular export surpluses and import needs.

The fall in cow numbers in North America now outweighs yield increases. The decline noted during the last decade will most probably continue. The milk market is likely to stagnate, in particular as far as condensed milk is concerned and cheese consumption may increase. The result could be a fall in butter output. With current policies, this would most likely result in higher prices rather than larger imports.

In developing countries a 2% to 2.5% annual increase in milk production is expected. Butter imports may increase from current low levels in the more affluent countries, partly as butteroil. The more affluent countries may step up imports of all forms of preserved milk. Production increases will at best be only slightly more than the increase in population, so that, with consumption in developing countries in the order of 90 to 95 million tonnes and production around 75 to 80 million tonnes, a gap will remain to be filled through imports and food aid.

b) U.S. market in the context of EEC-U.S. relations

The U.S. import of dairy produce, in terms of milk equivalent, represents only about 1.5% of domestic milk production. Import quotas on specified dairy products are imposed to prevent imports from interfering with the price support programme and manufacturing milk. The more expensive types of cheese remain unrestricted, through the use of pricebreak mechanisms covering Emmenthaler, Gruyere-processed and other cow's milk cheeses. A recent Section 22 action raised the pricebreak level for these cheeses because of increased subsidies. During 1973 and the first half of 1974, emergency temporary import quotas for skimmed milk powder and all types of cheeses were authorised. Quotas for butter and butteroil were also issued in 1973, counting for about 10% of domestic annual butter production. As the outlook for dairy markets has become less favourable, additional import quotas have no longer been issued.

It has been estimated that, on the basis of an open U.S. market, exports from the EEC would be the most important. If the U.S. had lifted import restrictions in 1975, some 5.4 billion kilos of milk equivalent would have entered that year, i.e. more than 10% of U.S. production. Incomes of dairy farmers in the U.S., under free trade, would drop in the short term by 20% to 30%, but by 1980 income levels would recover, and for farmers remaining in dairy production incomes would be higher than in the case of continuing import restrictions.

Until recently the United States was deeply involved, as were other countries, in policies to support farm incomes, partly through tariffs, formal import embargoes and quotas and informal arrangements with suppliers to limit shipments. Policy was directed towards domestic farm prices rather than trade expansion. In the course of the 1960s official thinking became directed more towards the trade benefits that could derive from liberalisation of farm trade policy. A number of studies indicated the trade gains that could be made through liberalisation, particularly from the exports of animal products, grains, oil seeds, tobacco and cotton. Vigorous export policies for agricultural produce resulted in the expansion of valuable earnings from overseas

sales. This strengthened the resolve of the U.S. Government to ensure that the Tokyo round of the GATT negotiations led to the significant liberalisation of trade in agricultural produce. This late conversion to trade liberalisation was highly selective in those products in which the U.S. had a clear competitive advantage. On the other hand, for those commodities such as dairy products, in which the U.S. is clearly incompetitive, there is very strong resistance on the part of producers and their representatives in Congress to any liberalisation.

At the same time, the U.S. position on trade liberalisation leads it into direct conflict with the EEC. For the U.S., though tariff reductions constitute an important part in negotiations, they can only be accepted by the elimination of non-tariff barriers and export subsidies. Consequently, the U.S. will only abandon its dairy quotas in exchange for the elimination of export subsidies. Clearly, any agreement on these lines would seriously reduce the Community's competitive position on the U.S. market.

For most dairy products the Community is proposing international commodity agreements using a system of minimum and maximum prices, with exporting countries agreeing not to sell below the minimum prices agreed to non-Members, while the importers would agree only to buy from exporting Members. Conversely, when world prices were high, exports would sell to the importing Members at the ceiling prices. This stabilisation approach would lead indirectly to trade liberalisation, since there would be less need for importers to apply frontier measures.

Given the conflict of interest and the complicated relationship between agricultural and industrial products, it is unlikely that any agreement will emerge in the near future to lead to easier access to the U.S. market.

VI. Food Aid Requirements

Among dairy products, vitamin-enriched skimmed milk powder is the most suitable for food aid because it has a high protein content, does not perish readily, is highly soluble and has many applications. Demand for milk powder can be broken down into demand for purposes of domestic consumption which cannot be met for reasons of foreign exchange shortfall, demand resulting from the need to vary an excessively monotonous diet and shortages as a result of natural disasters. In addition, apart from meeting needs for direct consumption, the supply of skimmed milk powder as food aid is very useful in that it can play a role in the development process by stimulating investment in the dairy industry and related infrastructure.

It is proposed to supply in 1977 at least as much food aid in the form of skimmed milk powder as in 1976, i.e. 150,000 tonnes, a quantity which has already been included in the indicative three-year programme for food aid (1977-1979), together with 45,000 tonnes of butteroil.

Aid is partly determined by requests from international organisations, such as the World Food Programme, UNICEF, the IRC and the League of Red Cross Societies, to which substantial quantities were also allocated in 1976. Indirect aid sent via international organisations represents 52% of butteroil aid and 45% of milk powder aid.

Requests for skimmed milk powder for 1977 amounted to 190,000 tonnes and for butteroil 159,000 tonnes.

The Committee on Agriculture has stressed the importance of continuity in food aid over the long term and therefore agrees with the delivery of fixed annual amounts of 150,000 tonnes, although it considers that this quantity could be increased if this should prove necessary to meet demand in the developing countries[1].

Additional quantities of skimmed milk powder - over and above that provided for in the regular programmes - do raise certain technical problems, however : the risk of overstraining the capacity of the countries concerned to absorb them, the technical problems connected with delivery, and the risk of unfavourable effects on local production and trade patterns. But there is room for an enlargement of the programme, given the willingness of the Council to make the budgetary appropriations available.

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[1] Doc. 191/77/Annex.

PART II : COMPARISON

I. Systems in the Member States

(a) Belgium

1. Collection

In Belgium most dairy product factories no longer take delivery of milk at their premises but operate their own collection service.

Milk churns are increasingly being replaced on the farm by refrigerated containers which cool the milk down to approximately 4°C. The dairy product factories are then able to collect this milk every other day. The percentage of milk chilled before delivery varies between 60 and 100% according to the dairy product factory. Since the capacity of the dairy product factories also differs, the average figure is probably 85%.

In most cases this milk is collected every other day. There are dairy product facotories which continue to collect the chilled milk every day but these are in a minority.

In 1975 the companies which collected less than 10 million kg of milk per year direct from dairy farmers still formed an important group - slightly more than 27% of the total number of such companies. Their share of the volume of collected milk is very low (2%). Almost 60% of companies collect between 10 and 75 million kg of milk per year, i.e. 55% of the total volume. In the range from 75 to 100 million kg of milk, four companies control 12% of total production while seven large dairy product factories collect more than 100 million kg each, or approximately 32% of production.

Since 1977 in particular several dairy product factories have ceased to collect small quantities of milk (e.g. less than 10,000 litres per year) or non-chilled milk.

2. Processing

In addition to the 86 companies which collect from producers there are 63 processing companies which represent 42% of the total and take their raw materials from the dairy products factories. This number remains relatively stable (in 1973 there were 66 units or 41%).

Almost two thirds of the companies process less than 10 million kg of milk but they account for only 5.3% of the total amount of processed milk. Milk processing is undertaken mainly in companies with a capacity of between 30 and 100 million kg of milk; these companies process almost 42% of milk. The number of companies which process more than 50 million kg per year rose between 1973 and 1975 by three units.

Fresh products include drinking milk, buttermilk, cream, acidified milk, milk drinks and other fresh products. In 1975 production of these was undertaken by 91 companies using 770 million kg of milk, i.e. just over 8 million kg per company. The number of small companies (with a production of less than 1000 tonnes of fresh products) is large, 69% of the total, but their output is very small (slightly over 1% of the total volume). On the other hand more than three-quarters of production is concentrated in 6 companies producing at least 20,000 tonnes per year.

A very small number of companies is engaged in the production of condensed [illegible] four units together produce 8 million kg.

There is considerable production of dried milk: in 1975, 31 companies manufactured 138,000 tonnes.

Skimmed milk powder predominates with a production of more than 117,000 tonnes during that year; whole milk powder and semi-skimmed milk powder represent 4.5 and 9.8% of the total production. More than 91% of dried milk production is in the hands of companies with a production of at least 2,000 tonnes per year; five companies produce almost 17,000 tonnes each.

The number of companies in the butter sector has fallen by 10 in three years from 70 in 1973 to 60 in 1975. These companies prepared more than 72,000 tonnes of butter and 98% of this factory butter bears the first-class control stamp. Average production per company is 1,200 tonnes. Production is heavily concentrated: almost three-fifths of the total amount comes from 10 companies producing more than 2,000 tonnes. Cheese production fluctuates around 40,000 tonnes. In 1975, 115 companies were active in this sector; 86 units, i.e. almost three-quarters of the total number, produced 12% of the total amount of cheese or less than 200 tonnes per company.

The 5 most important companies prepare an average of 3,600 tonnes of cheese per year, representing 46% of total production.

Finally the production of melted cheese, amounting to 11,000 tonnes, was undertaken by 5 companies.

Large quantities of milk are delivered to the Inza, Inco and Inex 'intercooperatives', Lilac, Interlait and other processing enterprises such as Comelco (central processing private company) and Stassano (drinking milk).

The milk delivered to dairy product factories in 1974 was utilized as follows (in %) :

drinking milk	17.92
butter	61.29
cheese	6.98
whole and semi-skimmed milk powder	7.79
condensed milk	0.49
cream	3.98
yoghurt, chocolate milk and special products	1.55
	100.00

Source: Het Belgisch Zuivelbedrijf, No. 160

3. Marketing

An increasing percentage of milk products are marketed in large stores of all kinds. House deliveries of drinking milk are rapidly losing ground.

It should be noted that farm milk as such still accounts for a large share of sales of drinking milk: approximately 145 million litres.

In addition approximately 20 million kg of farm butter is manufactured and marketed locally.

4. Importance of the cooperative sector

The number of cooperatives associated with the AVCZ (Algemeen Verbond der Coöperatieve Zuivelfabrieken) in 1976 was 36. In Wallonia there are some cooperatives which are not associated with it, notably Sud Lait (Recogne), Malmédy, Theux and Interlait (Dison). Taking these into account, their share of milk supplies is probably 70% or more (as against 52.9% for the AVCZ). The figure for drinking milk is estimated at between 50 and 55% (39.2% for the AVCZ).

The preparation of melted cheese is exclusively in private hands. The cooperatives' share in various other more sophisticated dairy products is also low. Certainly for yoghurt the share has been cut by a third over ten years. The AVCZ produces barely 4.2% of fresh cheese and under 2% of ice cream. On the other hand the cooperatives are in a stronger position as regards butter, dried milk and most types of hard cheese.

In general the cooperatives' share is lower as the products become more sophisticated or else stronger marketing is needed. Where these elements are important, manufacturing and marketing falls into the hands of specialized and generally multinational companies (melted cheese, fresh cheese, yoghurt, ice cream etc.).

TABLE 15

COLLECTION AND SUPPLIES OF MILK TO DAIRY PRODUCT FACTORIES IN BELGIUM

	1974	1975	1976
Total milk production (litres)[a]	3,600,710,000	3,515,828,155	3,434,880,350
Fat content (g/l)	34.82	35.04	36.16
Supplies to the dairy product factories[b]			
- in the form of milk	2,580,620,826	2,579,364,162	2,610,873,055
- in the form of cream	151,979,011	115,611,236	99,126,594
Total supplies :	2,732,599,837	2,694,975,398	2,709,999,649
% supplies :	75.9	76.7	78.9
Milk available on the farm (litres)[a]	875,994,169	826,728,155	729,896,117
of which used for			
- the preparation of farm butter	536,284,991	516,523,301	455,086,408
- the production of farm cheese	3,747,759	2,966,990	3,075,728
- cattle fodder and personal human consumption	335,961,419	307,237,864	271,733,981

[a] Source: Landbouw Economisch Institut (LEI)

[b] Source: Nationaal Institut voor Statistiek (NIS)

DENMARK

The organisation of the marketing of milk in Denmark is particularly interesting because the cooperative system is the most highly developed in that country : 90% of Denmark's farmers belong to cooperatives and 90% of milk produced is sold through cooperatives.

Cooperative organisations are essentially concerned with buying production imports and selling produce on behalf of members and in competition with privately-owned businesses. The boards of the cooperative organisations hire specialists to deal with the processing of milk. Returns to farmers depend on the skill of these managers.

There is no special cooperative legislation in Denmark. The liberty to form associations is safeguarded in the constitutional act which gives the citizens the right to form associations for any legal purpose. In certain of the general trade laws, such as the companies act and the tax laws, there may be a few principles to distinguish cooperatives from other types of business, for example the goal being to benefit the members and the surplus to be distributed among the members according to the turnover. Otherwise the cooperative societies and their members are solely responsible for the writing of the by-laws and to decide if they want the society registered. Several national cooperative organisations have worked out standard by-laws for the use of the local societies; however, these are free to use them or not.

Relations between the individual farm and the cooperative organisation are governed therefore by binding contracts which lay down delivery obligations.

Prices are equally regulated. For example, the milk price paid to the individual farmer follows milk quotations fixed for the whole country.

Production levies are applied to a number of farm products with the purpose of financing activities of professional organisations pertaining to production and trade of farm products. At present, production levies are applied to slaughtering and exports of pigs, horses, cattle and sheep, to receiving of milk, production of seed and to use of seeds for planting. Paid by the producers, proceeds from the levies are paid into a fund which is administered by the Agricultural Committee, and the fund is used for financing of activities related to production and trade of the products in question, concordantly with Common Marked regulations. Examples of activities financed under this system are market improvements and research related to improvement of processing techniques, development of new products, improvement of meat quality, etc.

Danish agricultural export interests are organised in a number of export boards which operate without government control. The boards are formed by voluntary cooperation of farmers' organisations, processing industries and exporters, meaning that both cooperatives and private industries are represented on the boards. The boards are free to negotiate with Danish and foreign authorities and can impose certain obligations on their members, such as common rules of competition, their main objective being to coordinate sales of the respective commodities for the benefit of the producers, to improve quality and to smooth out seasonal variations in prices. The boards also make an important contribution towards orderly marketing and keep producers informed on developments on the export markets.

Along with industrialisation of the Danish economy, food manufacturing and especially food marketing have concentrated on larger and more integrated units. A generation ago, food marketing was disintegrated, often carried out by local processing industries or independent dealers. Today, trade of Danish farm products is organised in a few, large and highly-integrated market organisations which in many cases have gained control over successive links of processing and trade. An important factor for this development has been the strong competition which the Danish farm export has met on foreign markets, and which has forced Danish exporters and marketing institutions to coordinate their activities. Considerable integration has taken place on the vertical plane, often on the initiative of processing industries which have increasingly gained control over the selling of their products. Indeed this has had significant implications for the trade, especially for the wholesale trade, where the number of independent dealers has fallen rapidly. The retail trade has also been affected; however, the main initiative here has come from chain-stores, foodstores and from cooperative consumer societies.

A considerable concentration has taken place in the cooperative food and supply industries in recent years where a large number of local societies have merged or have been dissolved. In some cases the concentration has led to establishment of nationwide organisations; in other cases, the development has tended towards regional or provincial organisations. As a result, the number of local societies has diminished rapidly as indicated by the following figures :

NUMBER OF LOCAL COOPERATIVE SOCIETIES

	1962	1967	1972
Dairies	1,094	735	274

Rationalisation of food processing and marketing structures began in the dairy sector where a number of large associations have developed, reducing the number of dairies by about 800 during the past decade. The largest association, Dairy Association Denmark, holds about 14% of the total milk delivery and the six largest associations account for about one-third of the total milk production. The structural reform process continues in the dairy sector; however, no specific aim is established as to whether future developments should go in the direction of large regional associations or establishment of one nationwide dairy association.

Germany

The following data are taken from the 1974 statistical report on the dairy sector in Germany, which was published by the Federal Ministry of Agriculture.

Cattle population and structure of dairy farming

At the beginning of December 1974 the dairy cow population of the Federal Republic of Germany was 5.39 million, 96,800 (1,8%) less than in the previous year. The number of farms with dairy herds had decreased to 597,400, (a reduction of 33,400 or 5.3%). Despite the decrease in the cattle population, average stocks per farm rose from 8.7 to 9.0 as a result of the steep decline in the overall number of dairy farms. Schleswig-Holstein had the largest herds (20 animals per farm) and Hessen and Rheinland-Pfalz the smallest (just short of 7 animals per farm).

The structure of the sector continued to be dominated by small farms in 1973, despite the further increase in concentration. Thus, 34.2% of all dairy cows were kept on farms with 1 to 9 animals (1969: 48.2%) - 23.9% of these being on farms with 5 to 9 animals (1969: 32.9%). In 1973 the largest reductions in livestock occurred on farms with 1 to 4 dairy cows. The figures for cows on farms with 5 to 9 and 10 to 14 dairy cows also showed a steep decline.

Yield

In the 1974 control year (October 1973 to September 1974) checks were carried out on yields on 142,500 farms and 2.2 million dairy cows (40.1% of the total cattle population). The importance attached to such checks, which help to improve milk quality and the profitability of dairy farming, varies from one land to another. For example, the yields of a good half of all dairy cows are monitored in the North of the Federal Republic, whereas in the South the figure amounts to only a little more than a third, in view of the high proportion of smallholdings.

The average milk yield of all cows monitored during the 1974 control year increased on average to 4,563 kg throughout the Federal Republic as a whole (41 kg more than in the 1973 control year). The average milk yields of non-monitored cows amounted to 3,509 kg throughout the Federal Republic as a whole (10 kg more than in the previous control year). For the cattle population as a whole, the average milk yield per cow in 1974 increased by 41 kg to 3,949 kg.

Milk production and milk utilization on agricultural holdings

According to the latest information (including 1976) milk production growth rates vary from year to year. With a decline in the number of farms with dairy herds, this is due mainly to the increase in the use of high-protein feeding stuffs (oil cakes) and an increase in the milk yield per cow. At the same time the use of milk for fodder purposes has declined steeply on dairy farms. Because of this decrease in the use of whole milk on agricultural holdings, milk deliveries have naturally risen more than milk production.

Milk delivery and milk utilization

In 1974 the amount of milk delivered to dairies in the Federal Republic rose by 26,000 tons (1.4%) to 19.08 million tons. In 1976 total milk production amounted to 22.2 million tons.

Milk producer price

Almost 600,000 farms with dairy herds derive a large part of their income from the sale of milk. In the financial year 1973-1974 proceeds from milk sales amounted to approximately DM 9,400 million and represented the largest single item (23.1%) in agricultural revenue from animal and vegetable produce. The proportion of total proceeds accounted for by milk sales has been declining for many years. In 1964-65 it still accounted for 26%. In 1974, in the context of the common organization of the market, a substantial sum (about DM 1,300 million, roughly DM 330 million more than in the previous year) was spent on measures to safeguard proceeds from the sale of milk. Butter intervention and measures to reduce butter stocks involved the most expense. In the same year about DM 484 million had to be spent on aid to skimmed milk for fodder purposes. Expenditure on aid to skimmed milk for the production of casein, on intervention in respect of skimmed milk powder and on the granting of refunds for exports of dairy produce to third countries also increased. In addition to the expenditure connected with the common organization of the market, national funds were also made available (60% by the Republic as a whole and 40% by the individual Länder) for improvementsin dairy structure and the monitoring of milk yields.

The 'Verbandsorganisation der Milchwirtschaft'

By setting up the 'Verbandsorganisation der deutschen Milchwirtschaft e.V.', the German dairy industry has created an instrument for representing its interests vis-à-vis public and private bodies at national and international level. Under its statute, the purpose of this association is to look after and represent the common objectives and interests of all the central organisations

belonging to it[1]. In order to coordinate efforts on basic dairy sector questions, a number of specialised committees have been set up within the 'Verband der deutschen Milchwirtschaft', which, in addition to dealing with technical matters, is also responsible for relations with the European Community.

TABLE 16

UTILISATION OF WHOLE MILK

Production / Utilisation	1971	1972	1973	1974	1975	1976
	1 000 t					
Milk production as a whole	21,165	21,490	21,266	21,508		
	Utilisation by producer					
Fodder	1,320	1,246	1,114	1,055		
Domestic consumption	935	857	844	847		
Processing to butter, curd, cheese	260	224	81	73		
Other uses (free allowance to workers, sale as fresh milk)	656	640	415	457		
Deliveries to dairies	17,994	18,523	18,812	19,076		
Percentage of production	85.0	86.2	88.4	88.7		

TABLE 17

CONSUMPTION OF BUTTER AND OTHER EDIBLE FATS

Type of fat	1971	1972	1973	1974	1975	1976
	kg/per capita					
Product weight						
Butter	7.9	7.1	7.3	7.1		
Margarine	9.0	9.1	8.8	8.6		
Pure fat						
Butter	6.7	6.0	6.2	6.0		
Margarine	7.2	7.3	7.0	6.9		
Meat fats	6.4	6.0	6.1	6.2		
Vegetable fats and solid vegetable fats	1.4	1.5	1.6	1.6		
Edible oil	4.7	4.6	5.0	4.5		
Total	26.4	25.4	25.9	25.2		

[1] For example 'Deutscher Bauernverband', 'Deutsche landwirtschaftliche Gesellschaft', Verband der landwirtschaftlichen Kammern', Deutscher Raiffeisenverband'.

FRANCE

With 7,751,000 dairy cows in 1975, 30.7% of the Community total, France produced 24,855,000 tonnes of milk, 27.1% of the Community total. This shows the average yield per cow to be 3,206 kilograms in 1975. In the same year, France produced 559,000 tonnes of butter and 943,000 tonnes of cheese or 32.5% and 32.2% respectively of the Community total.

The French market in milk and dairy products is organised as follows :

- on the administrative side, FORMA (Guidance and Stabilisation Fund for Agricultural Markets), an industrial and commercial institution, was set up under decree No. 827/61 of 29 July 1961. Its purpose is to implement Community milk regulations, to finance them in France and to act as an intervention agency.

  FORMA is also the centre through which the public authorities and the various agricultural circles jointly determine the French position in the management committees in Brussels and explain the work of the Commission to farmers.

  Cooperation takes place through various bodies :

  . the Board of Directors with 24 members (12 representatives of the agriculture and finance sections of the civil service and 12 representatives of producers and processors of agricultural products) gives rulings on the draft opinions drawn up by FORMA which, unless vetoed by the ministers responsible, then become decisions;

  . the select advisory committees deal with problems connected with the day-to-day administration of the market in each product. Thus, there is a select advisory committee on milk which holds weekly meetings attended by delegates from the dairy industry, civil servants and experts. The select advisory committees provide assistance to the FORMA management.

- on the enterprise side, 2,341 establishments were active in the dairy sector in 1976 : 1,243 cooperatives and 1,098 private firms[1].

  They have three trade unions, the FNPL (National Federation of Milk Producers), the FNCL (National Federation of Dairy Cooperatives)[2] and the FNIL (National Federation of the Dairy Industry).

  In 1974 they set up the CNIEL (National Dairy Economic Joint Centre) for the purpose of strengthening cooperation between milk producers and processors to ensure the development of the French milk sector and provide better safeguards for producers' incomes under the common agricultural policy.

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1 Information provided by the National Federation of Dairy Cooperatives, 7 rue Scribe, 75009 Paris

2 The FNCL withdrew in 1975

The CNIEL has set up :

- a sales promotion committee, responsible for preparing and implementing programmes to promote dairy products on the French market. Programmes are financed jointly by the dairy industry and the public authorities.
- a quality control committee, which prepares recommendations for the CNIEL general assembly and the public authorities for bringing milk standards and control and processing requirements into line with technical, economic and commercial developments in the sector.

There is also :

- an advisory committee, consisting of regional joint trade representatives, which meets every three months,
- a research committee, through which the directors of joint trade laboratories coordinate their activities,
- a division responsible for the Gruyère and Emmental sector : the SIGF, the Joint Trade Union for French Gruyère.

The law of 12 July 1974 on the joint dairy trade makes provision for the CNIEL to charge a membership fee (FF 0.025 per hectolitre of milk collected) and a parafiscal fee of the same amount. Its annual budget is of the order of FF 10,000,000.

The CNIEL may ask the public authorities to approve its decisions, thereby making them binding on all the persons concerned whether members of the joint dairy trade or not.

Private firms account for 53.2% of national milk collection, and cooperatives for 46.8%. The average amount collected by private firms is 127,000 hectolitres a year and by cooperatives 88,000.

Private firms specialise in processing the following products :

- fermented milk	65.4%
- dessert creams	61.3%
- cream cheese	81.3%
- uncooked pressed cream cheese	64.4%
- cottage cheese	73.7%
- processed cheese	95.3%
- condensed milk	85.8%
- whey powder	66.4%
- casein	59.9%

On the other hand, the cooperatives mainly produce :

- drinking milk	56.0%
- cooked pressed cream cheese	55.7%
- blue-veined cheese	55.2%
- skimmed milk powder	51.0%
- milk powder with added fat	53.6%

Private industry is dominated by large groups such as BSN (which has control of Gervais-Danone), BEL and Perrier.

There are also cooperative groupings, mainly in the west of France.

In 1976 the Normandy milk union collected 1,600 million litres of milk (or about 8% of the national total), produced 10% of the butter manufactured in France and sold 5% of the milk consumed. Another cooperative grouping, SODIMA, collected 2,380 million litres of milk in 1976.

Small cooperatives, the 'fruitières', with an average of 50 members, also exist in the mountainous regions of eastern France (Jura in particular) and in the Charentes.

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France thus has some very large firms that can compete internationally and a host of small production units (there are more than 1,000 fruitières') of a more manageable size, but they have little chance of increasing their market by exporting commercially. This fact emerges from the figures provided by the 'Economie Agricole' journal[1], which states that in 1974 there were 703 firms with more than 6 employees (compared with the 2,341 establishments above), 468 in the private sector and 235 in the cooperative sector.

[1] Economie Agricole No 2, February 1977 (milk issue)

IRELAND

Previous to Ireland's entry into the EEC, a number of State or semi-State bodies were involved in the processing and marketing of dairy produce on the export and domestic markets. Following entry into the EEC, the status, functions and powers of these bodies were modified to comply with Community regulations.

The assets of the statutory Bórd Bainne, set up to develop export markets, were transferred to An Bórd Bainne cooperative in 1975, which has taken over the central marketing of the vast bulk of the Irish dairy products on external markets, mainly in the United Kingdom.

Similarly, the functions of the State sponsored Dublin and Cork Milk Boards were modified, and the remaining Creamery properties of the Dairy Disposal Company were sold to cooperative interests in 1975.

Supply of liquid milk for human consumption is regulated by means of minimum prices for producers in the respective areas of the Dublin and Cork District Milk Boards.

For dairy produce, marketing efforts are concentrated on product quality improvement and identification, and rationalisation of the co-operatives.

Butter has a particularly important place since Ireland allocates a higher proportion of its manufacturing milk to butter than any other EEC country, 69.7%[1], as with skim milk powder. The United Kingdom remains the principal export market for butter and cheese, and to a lesser extent skim milk powder.

%	IRL	UK	Other EEC	Third Countries
Butter	42	55	2	1
Skim Milk Powder	2	39[1]	39	20
Cheddar Cheese	6	92	-	2

[1] plus re-exports

Efforts to improve quality include compulsory licensing and quality inspection of butter and a cheese grading scheme to relate price to quality.

Considerable success has been obtained by Bórd Bainne in establishing a quality image in export markets of its branded produce.

[1] Germany: 68.2%, Denmark: 61.5%, France: 60.9%, Netherlands: 49.4%

The processing of dairy products in Ireland is largely dominated by the cooperatives, who account for all butter production, most cheese production (in two cases in collaboration with overseas companies) and the bulk of skim milk production.

Cooperatives in Ireland (% market 1976)

Sales		Purchases		Processing	
Milk	100	Feedingstuffs	40	Milk	90
				Milk Powder	70
				Cheese	65

The concentration of cooperatives into a more rational structure is proceeding rapidly and is facilitated by the growth in the dairy industry, changes to EEC intervention system, plans drawn up by the Irish Agricultural Organisation Society and government legislation.

Many of the agricultural processing industries are of a comparatively large size by the standards of Irish industry. Substantial further investment in the extension and modernisation of dairy plant is being undertaken, including an increase in the number of skim-milk powder plants and other milk processing facilities. While a considerable amount of progress has been made towards the reorganisation and rationalisation of the creamery industry, a great deal still remains to be done. Recent legislation facilitating amalgamation of creamery societies should result in more rapid progress.

In addition to change in structure, more effort is required to develop general management capacity rather than technical knowledge and morecentral direction.

Most cooperatives in Ireland exercise multiple functions, a reflection of the mixed agriculture typical of Ireland. On the other hand, this characteristic renders more difficult the development of a strong centralised farmer organisation in each sector.

ITALY

The situation in dairy products in Italy is different from all the other countries of the Community, and this also affects the organizational structure and the structure of the market. There is a great shortage of dairy products in Italy and thus a large part of her requirements has to be imported. In 1976 she had to import 871,600 tonnes of milk (a 52% increase on 1975), of which 86% came from Germany and the rest from France. She also imported 81,600 tonnes of cheese (+ 16%). Besides the structural and environmental factors this is due largely to the system of monetary compensatory amounts: a litre of milk from Germany costs about Lit 200 while the cost of Italian milk is around Lit 250 per litre, which explains the industry's preference for imported over national milk.

The difficulties encountered by Italian producers in withstanding competition from their European partners has resulted in a steady decrease in the dairy herds in spite of efforts by regional and national authorities: in 1973 there were 3,259 million cows; in 1974, 3,051 million (6.4% down on the previous year); in 1975, 2,927 (-4.1%); in 1976, 2,883 (-1.5%). At the same time milk production fell from 9,350 million tonnes in 1973 to 8,689 million in 1975.

It should also be pointed out that more than 80% of milk production is concentrated in the North of Italy, specifically in the Po Valley; the cheese and processing industries are also concentrated here and this area uses 66.30% of all the milk destined for direct consumption.

In Italy there is no centralized organization for coordinating production and marketing. AIMA (the State organization for intervention in the agricultural market) is responsible for Community intervention in application of EEC regulations. Thus it organizes the withdrawal of and tendering for grana-padano and parmigiano-reggiano cheeses; the payment of aid in the sector, for example for powdered skimmed milk for animal feed, and for the private storage of the cheeses mentioned above, pecorino romano, and butter. The function of the AIMA is to stabilize the market particularly for national production of parmesan cheese, by withdrawing or releasing it onto the market depending on the price level, and for imported butter and powdered milk.

The new non-autonomous Regions whose powers are being increased, are also likely to be given the authority in this sector which lies at present with the Ministry of Agriculture which set up the AIMA.

There are three sectors in the organization structure of dairy production in Italy: private industry, cooperative industry and the central dairies.

Private production is carried out by a limited number of large firms, the main ones being Galbani, Locatelli, Polenghi and Invernizzi. There are a few other medium-sized companies (20-25), and many small and very small firms. The two main problems facing the industry are the changeover from traditional methods to mechanization and its attendant psychological effects, especially in cheese-making where traditional craft methods are deep-rooted; secondly, the small size of the firms makes modernization awkward and makes them less productive and less competitive.

The cooperative sector is still under-developed although it is being expanded especially in Lombardy and Emilia-Romagna. There are three basic types of cooperative in the dairy sector: dairies worked on a rota basis, communal dairies and producer groupings. In the first, which are on the decline, milk is processed in turn by the members, with an inevitably low level of production. The second differ from the private companies in that the members agree to pool all their milk, and to take payment from the profits for the marketing year rather than according to the agreed market price. While these two forms of cooperative are directly concerned with processing the milk the producer grouping is more an association of milk producers aimed at achieving greater bargaining power in supplying milk to firms and thereby obtaining a better price.

There are still a number of central dairies, mainly confined to large communes in North and Central Italy. They are governed by the law of 16 June 1938 and are responsible for the collection and subsequent sale of milk directly to the consumers in the district or area concerned. However some of the regulations were abolished in 1972 (such as compulsory use of milk from all those producers in the area assigned to the central dairy) following intervention by the Community, which found them inconsistent with the common market.

Home deliveries of milk by the central dairies is almost unknown. Milk processed in the dairies is usually sold either in special shops (latterie) or in general food stores and supermarkets.

LUXEMBOURG

Milk and beef have a prominent place in the agricultural economy of the Grand Duchy of Luxembourg. Milk represents 44% of the value of its agricultural production and beef and veal 36%[1].

The Grand Ducal milk market is organized as follows:

- on the administrative side, there are two separate services:

  (1) the rural economy service,

  with a 'milk and milk products section' which acts as a liaison body between the Luxembourg Government and the Community institutions in Brussels (Commission, Council, Management Committee) and at the same time as the intervention agency laid down in Regulation (EEC) No. 804/68.

  Milk powder is stored at Mersch and butter in cold storage at three sites in Belgium (Aubanche, Marcinelles and Brussels);

  (2) the milk technical service,

  which controls quality and organizes publicity campaigns to increase the consumption of dairy products. It is this service that has helped to modernize the equipment for collecting and distributing milk and dairy products. There were 265 dairies in Luxembourg after 1945 but the number today is only 4.

- on the business side, there are three cooperatives and one private firm.

  (1) The three cooperatives (Luxlait, Laduno and Celula) are members of the Cooperative Dairies Union and collect 90% of the milk.

  The Cooperative Dairies Union was set up by the Centrale paysanne, the national farmers' union, and has indirect

[1] Report on the dairy economy of the Grand Duchy of Luxembourg - 1976, University of Nancy II - Faculty of law and economic sciences, Roman BAUSCH and Eugène BECKER

control over the cooperatives through membership of their supervisory committee.

The Centrale paysanne has also set up a sales organization, Centralmarketing, which promotes the products manufactured by the Cooperative Dairies Union.

The union has specialized production among its members so that Laduno produces only butter and Celula only yoghourts. Only Luxlait produces the whole range of dairy products. It also has two companies under private law, 'Luxlait Produits', which manufactures milk powder and 'Eskimo Pie', which specializes in the manufacture of ice-cream.

(2) 'EKABE' (Emile Klensch, Bettembourg), the private firm at Eschweiler, collects 10% of the milk. It is a small processing plant which has been modernized and manufactures practically the whole range of dairy products and does its own marketing.

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Because it is small, EKABE can easily sell its products on the national market: its sound, long-standing marketing policy has enabled it to secure remunerative markets in cream and yoghourt. By carefully exploiting the milk it collects, it has been able to make the necessary investments to cope with competition from the cooperatives.

On the other hand, because of its size and the quantity of milk it collects, the Cooperative Dairies Union is in a less-favourable position because it has to secure foreign markets to promote its products, but it then encounters competition from large foreign groups.

In conclusion, the milk market in the Grand Duchy of Luxembourg is highly structured, which enables it to compete internationally.

THE PRODUCTION, PROCESSING AND MARKETING SYSTEM IN THE NETHERLANDS

In the Netherlands milk is produced on some 95,000 farms with over 2.2 million dairy cattle. In 1974, total milk production was almost 10,000 million kg, with a very high average milk yield per cow that year of 4,470 kg.

The total number of agricultural holdings amounts to some 150,000, almost two-thirds of which keep dairy cattle. If a dairy farm is defined as a farm with more than ten dairy cattle, then almost half the farms (some 75,000) fall into this category. However, over the last twenty years the number of dairy farms have fallen by half, whereas the number of dairy cattle per farm has increased three-fold in the same period. Half the dairy herds are now to be found on farms with more than 30 dairy cattle. There has been an enormous increase in the number of farms equipped with battery and battery-feeding pens. At the beginning of 1975, about one-quarter of the dairy herd was accommodated in battery pens. A further increase in the number of such pens seems likely; given the limited amount of grazing available, this is the only way in which dairy herds can be increased. It would be possible to increase the area of land devoted to alternative green crops, but preference is normally given to other cash crops which are likely to be more profitable.

The number of holdings equipped with refrigerated milk tanks has increased sharply in the last few years. The growth in transport by milk tanker has been stimulated by the modernization and expansion of dairy farms and by the concentration of the dairy industry which has entailed transporting milk over long distances. Milk production on the dairy farms has, therefore, already been mechanized to a large extent and this brings significant savings. Some 95% of all milk produced is supplied to the dairy factories. Some 89% of the milk delivered to the dairy factories is processed by the cooperative dairy industry, the remaining 11% by individual dairies. The milk not delivered to the dairy factories is turned into farmhouse cheese and farmhouse butter or sold directly to the consumer. Some of it is also consumed on the farm by humans or animals.

At the end of 1974 there were 234 dairy factories compared with a total of 500 at the end of 1960. Thus, in 14 years, the number of dairy factories has fallen by more than half.

The number of enterprises declined even more sharply, from 400 in 1960 to 90 in 1974. In 1975, the dairy undertakings processed an average of 100 million kg milk per year. In 1975, 4.3% more milk was processed than in the previous year.

The extra milk supplied was all processed into butter and skimmed milk powder because the quantity of milk processed into other products was some 200,000 tonnes lower. The proportion of milk processed into skimmed milk powder was, therefore, second only to cheese. In 1975, 35.3% of the milk was processed into cheese, a good 2% less than in 1974. As for drinking milk, the switch from full to semi-skimmed and skimmed milk products increased and the sharp decline in the proportion of condensed milk continued.

More than half the milk was exported in the form of various dairy products. That exports took such a large share may be explained by the following factors. Firstly, milk can be produced at relatively low cost because of the favourable soil conditions and climate together with the efficient structure of dairy farming. Secondly, it can also be processed at relatively low cost thanks to the efficiency, in terms of size and equipment, of the dairy industry, and exports also profit from the product's high quality.

Finally, the favourable geographical position plays an important part since a large market is within easy reach. By far the largest proportion of the dairy produce, however, goes to the EEC countries. The Federal Republic of Germany alone takes annually one-quarter of the cheese produced in the Netherlands. However, exports on this scale entail great dependence on the economic situation in the other countries and on the smooth functioning of free trade.

Cooperative sales groups are responsible for a large proportion of dairy product sales. The members of the cooperatives are contracted

to supply their products to the groups, insofar as the groups deal in these products (especially butter, cheese and milk powder). These products can, of course, be sold directly to retailers and consumers.

In 1974, the retail butter trade comprised some 400 traders who did not have their own means of production; of these, 10 had a turnover of at least 5,000 tonnes. The retail trade in milk powder is carried out by a number of dairy undertakings and 30 traders. There is no individual wholesale trade in concentrated milk. More than three quarters of the export of concentrated milk to third countries is handled by three large undertakings. The total number of individual cheese wholesalers is about 200, although of these, 16 are responsible for some 70% of the turnover.

UNITED KINGDOM

Milk production and marketing is organised through cooperative organisations, called marketing boards, established following a vote taken by all producers. Marketing boards differ from other cooperatives in that, once established by producers, they are endowed with a monopoly position for the sale of milk.

The monopolistic character follows from experience of Permanent Joint Milk Committees set up in 1922 : these committees attempted to organise the collective selling of milk by negotiating contracts between producers, distributors and manufacturers; given the milk surplus, undercutting of prices inevitably took place.

It became evident that compulsory powers were needed.

The Agricultural Marketing Acts of 1931 and 1933 provided for the setting up of marketing boards at the request of producers, and five independent milk marketing boards were set up for the different regions of the United Kingdom.

Milk Marketing Boards can be abolished by a simple majority vote of producers if they believe they no longer respond to producers' needs.

The Boards have no direct control over production, and even their indirect power as the monopoly buyer is limited by their lack of control over imports and complete freedom of producers to sell on export markets.

The main feature of the Milk Marketing Board is that only producers registered with the Board may sell milk, either through :

- a wholesale producer contract with the MMB acting as the producer's representative to obtain for them the most favourable returns;
- a Producer Retailer Licence, with the farmer bottling and selling the milk himself;
- or a Farmhouse Cheese Contract, with the farmer making and marketing the cheese himself;
- or on the export market.

The great bulk of milk is sold through a Wholesale Producer Contract (96.5%), with Producer Retailer Licences accounting for 2.1% and Farmhouse Cheese Contracts 1.4%.

During the war the Government took control of price fixing and the major decisions regarding milk handling and movement and it was not until 1954 that some of the Board's powers were returned. Even then, the Government still retained a wide measure of financial control. The guarantee of producers' prices, started in war-time, remains today and the Government decides the price of liquid milk at every stage of distribution, but the Board's pre-war function of negotiating with manufacturers the price of milk for dairy products has been returned.

The tasks the MMB has retained today principally consist in increasing productivity in the milk sector, acting as 'book-keeper and treasurer' for all sections of the milk industry and ensuring that milk is put to the most efficient use in the most suitable way.

The MMB may be seen, therefore, as a compulsory producer's cooperative intended to act for producers through elected representatives and to guarantee a market for their product and stable incomes.

The MMB is the executive organ for the market arrangements of the milk market scheme whose basic objective is to guarantee milk producers the greatest possible income security. The Board consists of a total of eighteen members, twelve of whom must be selected from the eleven regions of England and Wales.

Eligible for election are registered milk producers operating in the region concerned. A further three members are elected by all registered producers in England and Wales. Finally, the MMB has three members appointed by the Minister of Agriculture. The term of office of all members is three years. Elections or appointments are made in respect of one-third of the seats on the Board every year. Re-election is possible.

The MMB is therefore responsible to producers who can call the Board to order. The three independent members of the Board do not act on Government instructions, but are considered to have a watching brief for the general public.

Though essentially a producers' organisation, the MMB has been given the task of administering particular elements of the wider market organisation. A certain confusion is created which may lead some to conclude that the MMB should not continue in the Community framework. Such criticisms, however, are generally unfounded since the MMB has already adapted and will further adapt to Community arrangements. For example, the contractual obligation of buyers not to buy milk elsewhere has disappeared. The guaranteed price will also disappear in the near future.

Furthermore, it should be stressed that the MMB has no control whatsoever over imports. If dumping were to occur, for example, the MMB would employ the same instruments available to any organisation in any country : request the Government to implement the anti-dumping provisions of GATT; these have been employed twice.

Given the willingness of the MMB to adapt itself to Community provisions, there is no reason why the MMB should not continue within the Community framework.

One of the most attractive features of the MMB is its flexibility in day-to-day management of the dairy market. This flexibility is based on two activities of the MMB :

(a) a pooled price for milk used for fresh products and for manufactured products;

(b) the ability of the MMB to direct flows of milk from one region to another according to the balance of supply and demand in each particular area.

One of the most important characteristics of the MMB is that it serves the needs of all producers within the area which it covers. The MMB is obliged to buy milk offered by all registered producers satisfying established hygiene and quality requirements.

The obligation applies to all producers, even those in the most peripheral areas of England and Wales. No subsidy for haulage is required since costs are pooled. Milk prices are approximately the same throughout the country : slight differences in prices between regions result from transport costs being partly taken into account. Thus, the MMB is of critical importance in maintaining the economic security of producers in peripheral regions.

While it is evident that the ability of the Board to dispose of milk produce cheaply and efficiently was due to the high level of liquid milk consumption, which accounts for about 60% of total milk production, it is also true that this high level of liquid milk consumption was only due to the efforts of the boards and the dairy industry to promote consumption. Due to publicity campaigns and product promotion liquid milk consumption had doubled from the inter-war years.

The present efforts to promote consumption had begun in the early 1950s when liquid consumption began to decline, so that a sales division was set up in 1954 to expand liquid consumption and fresh cream and cheese sales. The division now has a staff of 200 and a budget of 17 m.u.a. The basic aim of the division is to organise campaigns to develop consumption, which are coordinated by products throughout the year.

(a) 'In-home' market : means of achieving this is through promotions organised in conjunction with dairies. Of estimated 40,000 rounds in England and Wales 25,000 - 30,000 regularly participate in these promotions.

There are two national Joint Inudstry Milk Promotions each year - Autumn (October/November) and Winter (February/March).

(b) 'Out-of-home' market : this is the responsibility of the Retail and Industrial Sales Department, and its activities include :

- siting over 20,000 milk dispensers in catering outlets and on industrial sites;
- an annual national milk promotion;
- increasing sales of cheese and fresh cream;
- a Dairy Produce Advisory Service;
- shows and sponsorship, and
- advertising : 1) NMPC - through its two divisions:
  NDC (Milk and Fresh Cream) and
  ECCC (English Cheese);
  2) Cheese Information Service (UK MMBs, An Bórd Bainne, CPA);
  3) Butter Information Council (main suppliers to UK market).

An important feature of the British dairy industry, and one in which there is a marked contrast with the dairy industries of other EEC countries, is the high degree of specialisation within establishments which, by and large, either produce liquid milk or milk products but seldom the two together.

In addition to purchasing milk, the MMB offers an extensive range of services to the farmer to help him achieve the maximum degree of efficiency. These services include :

(a) artificial insemination - the MMB inseminated two in three milk cows and one in four beef cows;

(b) a milk recording service provides the producer with a continuous statement of the amount of milk that should be produced by each of his cows;

(c) a costs and advisory service on the economics of all farming activities in order to allow each farmer to establish production policies;

(d) veterinary services.

Until recently the MMB received no financial aid whatsoever from the Government. It was entirely self-financing. Subsidies introduced are temporary and should be discontinued in the near future.

The costs to the producers of the MMB are extremely low. For 1976/77 the net marketing expenses of the Board were £43 million or 0.363 pence per litre (the guaranteed price is 9.443 pence per litre).

Milk marketing boards and Community legislation

Considerable debate followed the entry of the UK into the EEC as to whether the marketing boards were in conformity with the basic objectives of the Treaty concerning free movement of goods and competition. It was recognized, eventually, that the market boards and the Treaty could be reconciled, particularly if the role of the boards in safeguarding incomes and in stimulating consumption were recognized.

Consequently, Regulation 1421/78[1] allowed for the maintenance, or creation of boards, provided that certain conditions were fulfilled and in particular that 80 per cent of producers concerned voted in favour.

The results of the poll were overwhelming in favour:

Out of a total of 47,922 milk producers to whom voting papers were sent on 24 October, valid returns were received from 46,668 (97.6 per cent). Of these, 46,426 (or 99.5 per cent) answered 'Yes' to the question 'Are you in agreement with maintaining the MMB carrying on the activities and exercising the rights resulting from Council Regulations (EEC) Nos 1421/78 and 1422/78?'.

The EEC also insisted that these 'Yes' voters should possess at least 50 per cent of all dairy cows in England and Wales. In the event, out of a total possible 'cow vote' of 283,620, 275,828 were cast in favour - a percentage of 97.3.

Asked for his reaction, Mr Roberts said: 'This is a tremendous result, and just what we were hoping for. It confirms what we have been telling our friends in Europe for years past - that the MMB is a genuine producers' organization, run and financed by farmers, and existing only because our farmers themselves want it to exist. It's an outcome which will, I think, be welcomed by everyone in the country - farmers, the dairy trade and consumers.'

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[1] OJ No L171, 28.6.1978, page 12

II. Third countries

CANADA

The goal of the federal dairy policy is to provide efficient producers of milk and cream with the opportunity to obtain a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of high-quality dairy products.

How milk production quotas are set

The key to the federal dairy programme is effective supply management.

The Canadian Milk Supply Management Committee has the responsibility of determining milk requirements and establishing market sharing quotas to bring forward this volume. This committee is made up of representatives of the provincial milk and cream producer boards, the provincial governments and the Canadian Dairy Commission which chairs the committee. The Committee estimates the total demand for industrial milk and cream.

Total market sharing quota is then set to bring forward the milk and cream production needed to meet this demand. It is difficult for farmers to produce exactly the amount required to meet the estimated demand. Accordingly, a sleeve or tolerance zone for production is used to ensure that producers as a whole are able to produce the full amount of domestic requirements. The Canadian Milk Supply Management Committee has determined that a five per cent sleeve is necessary to achieve the desired production level. Total market sharing quota is, therefore, five per cent higher than the estimated requirements, plus a small amount of quota protected for some provinces.

Producers receive their individual quotas (including the five per cent sleeve) from their provincial milk and cream agencies.

How producer prices are determined

In April 1975, the federal government established a formula for setting base returns to farmers for industrial milk and cream.

This returns adjustment formula is used by the Canadian Dairy Commission in determining the target returns farmers are to receive. It is based on farmers' average cash production costs and the consumer price index (used as a measure of changes in the value of a farmer's labour). In setting the level of target returns, judgement factors are also included.

Dairy farmers do not receive the full target returns. Levies, transportation costs, and provincial assessments for administration and advertizing are deducted before a producer receives his money.

How the dairy programme affects retail prices

Most of the target returns are paid to farmers by dairy manufacturers - creameries, cheese factories and other processors. However, in order to reduce the price of dairy products to consumers, the federal government pays part of the cost of producing industrial milk. This is paid as a direct subsidy to farmers by the Canadian Dairy Commission. This year's subsidy is 4.03 ua per hectolitre, the same amount as in the past three years.

The amount that dairy manufacturers pay to farmers for industrial milk and cream is indirectly determined by the support prices for butter and skim milk powder set by the Canadian Dairy Commission.

Some new aspects in the 1978-79 programme

A contingency levy has been introduced.

An in-quota levy of 1.51 ua per hectolitre is being collected on all deliveries within quota. This amount should pay for disposing of surplus milk products made from milk delivered to meet Canadian requirements. Over-quota deliveries are subject to a levy of 11.4 ua per hectolitre and this amount covers the cost of disposing of surplus products produced from over-quota milk and cream.

Another new feature is the change in the quota period. The peak milk production period is normally the early summer months when dairy cattle are put on pasture. In the past, some farmers have used too much of their quota in the summer months and run short of quota the following winter. By starting the quota period in the autumn and ending it soon after the flush summer season, farmers are less likely to overproduce early in the quota period. Also, they will be able to gear their summer production to the amount of quota they have left.

Federal dairy programme for 1978-1979

In Ottawa on 13 April 1978, Agricultural Minister Eugene Whelan made an announcement on the federal dairy programme for 1978-79. He said that most dairy farmers had a good year in 1977-78, and predicted that the coming year should be even better, with the strong financial support of the federal government and the co-operation of producers and provincial marketing organizations.

The increase in farmer returns would mean a five-cent increase in the support price for butter and a two-cent increase in the skim milk powder support price. Mr Whelan explained that the increases were less than the general rate of inflation and were necessary to maintain producer incomes in the face of rising costs. He added that the direct federal subsidy on industrial milk production remained at 36 ua per tonne, this subsidy keeping retail dairy product prices lower than they would otherwise be.

Mr Whelan believed that supply management was the key to the success of the current year's dairy programme, as in previous years.

NEW ZEALAND

With the export of farm products playing such an important part in the economic activity of New Zealand there has always been a close Government interest in the marketing of these products. Over the years statutory authorities have been established for all the main products, although there has always been considerable variations in their powers and responsibilities. However, since the 1950's the concept that producers themselves should have the major voice in the running of these bodies has been accepted by Government.

In some cases these marketing authorities have assumed partial or full responsibility for marketing their products (e.g. New Zealand Dairy Board).

The organisation of marketing and processing that falls outside the control of the Boards is largely in the hands of private traders. The major exception to this rule is in relation to the manufacture of dairy products, where practically all factories are owned and operated by farmer co-operatives. By far the largest of these companies is the New Zealand Co-operative Dairy Company which draws supplies from a large area of the North Island and produces about 30% of New Zealand dairy production. Altogether there are about 90 companies operating, with a trend towards amalgamation of small single product companies into larger units operating multi-product factories.

The liquid milk industry in New Zealand ('town milk') represents about 10% of total milk production and is controlled by the New Zealand Milk Board set up in 1953. This Board administers the national milk scheme, which involves a guaranteed supply of milk, guaranteed producer prices and fixed margins for related services. The price paid to producers for town milk is formally set by the Minister of Agriculture and Fisheries. However, for the past 30 years it has been calculated according to a formula whereby the national average price for town milk is related to the price for milk for cheese manufacture.

The town milk price is always above the price paid for manufacturing milk to cover the extra costs incurred by the producer in supplying milk for a full 12-month period. The price paid by consumers (7 NZ cents per litre for a number of years) does not cover the producer price plus necessary margins and the difference is made up by a Government subsidy. The town milk price is paid on the estimated quantity required to supply the projected demand plus a safety margin. The Board enters into supply contracts with producers associations to guarantee the supply of milk in all districts for the whole year. The associations fulfill their contracts by allocating quotas to their individual producer members. Producers may freely exceed their quota and any surplus is disposed of by the associations at the best available price.

The acquisition and marketing of dairy products for export is the statutory responsibility of the New Zealand Dairy Board, which handles all but a very small quantity of dairy exports. This Board acquires its produce for export from the dairy manufacturing companies, which are almost exclusively farmer's co-operatives. The Board sells to overseas markets and is empowered to distribute up to 50% of any annual trading surplus to the dairy companies which supplied the produce. Distribution of any surplus in excess of 50% requires the consent of the Minister for Agriculture.

Sales of manufactured dairy products on the domestic market are the direct responsibility of the dairy companies. There is no Government involvement except in relation to establishing the maximum prices for butter and cheese and keeping them related to the export purchase prices.

There is a relatively complex pricing system for manufactured dairy products which was first introduced in 1936 to give stability to the dairy industry in New Zealand. An essential feature of this system is that of price stabilization which is achieved by use of a basic export butter purchase price that is set on the principle of a "self-balancing account", so that in the longer term the total payout to farmers will be equal to average export realizations with short-term fluctuations smoothed out. Under the most recent legislation (Dairy Board Act 1961) this price is fixed by a statutory body known as the Dairy Products Prices Authority. The most important factors considered by the Prices Authority are the necessity of maintaining the stability and efficiency of the dairy industry, the amount which butter and cheese acquired by the Board is realizing, the market prospects of these products for the coming year and the present and prospective state of the accounts established for the purpose of acquiring and marketing export dairy produce. In any one season the established export price for butter must not vary by more than 5% from the maximum price fixed for the previous season.

The price of cheese is fixed by the Dairy Board in relation to the price fixed by the Prices Authority for butter, together with an allowance related to the returns from milk powder and casein. The objective in relation to suppliers of whole milk for manufacture into cheese is to ensure that, on average, they receive a return that is both related to the realization for cheese and limited to the range of assessed returns for milk powder and casein.

The producer is paid by his co-operative manufacturing company a monthly advance on milk supplied. These advance payments are mainly based on the known basic purchase prices that the New Zealand Dairy Board pays to the co-operative dairy companies for butter and cheese supplied for export. They are normally supplemented by additional payments later in the season

when it becomes possible to more accurately determine a final payout price. An indication of prices received by producers for supply of whole milk may be seen in relation to the basic purchase prices shown for butter and cheese in the Table below, along with additional payouts for the season. It will be recalled that the basic purchase price for milkfat products is set on the principle of a self-balancing account and furthermore, as there are normally additional payouts, it can be seen that no element of subsidy is involved. If returns for a season do not reach the basic purchase price the deficiency is made up from the Dairy Industry Reserve Account (the balance in which has fluctuated from a credit of NZ $ 51 million in 1953 through a debit of NZ $ 20 million in 1971 to a credit of NZ $ 22 million in 1973). If the account runs into debit it is financed by a government guaranteed advance from the Reserve Bank (this happened in 1969/70 when no additional payout was made).

There is no Government intervention in relation to the pricing of non-fat milk products. Prices on both the domestic and export markets are allowed to find their own levels. However, in relation to milk powder and casein, the prices are set by the Dairy Board in such a way as to pass on export realization to the dairy companies with a measure of equalization between the returns for the different products. The aim is to give some control over the relative quantities of milk going into production of one or other of these products. Payments to the dairy companies aim at keeping the maximum difference in the unit values of the two products to 3 NZ cents per lb of milk-fat equivalent, after allowing for average New Zealand manufacturing costs.

TABLE 18

DAIRY BOARD PURCHASE PRICES FOR MAIN DAIRY PRODUCTS AND AVERAGE RETURN TO DAIRY PRODUCERS in NZ cents

	Creamery Butter (Finest Grade)		Cheese (First Grade)		Spray Skim Milk Powder (Finest)	Average Price for milkfat in milk at farm (NZ cents per kg)
	Basic Purchase Price	Additional Payments	Basic Purchase Price	Additional Payments	Basic Purchase Price	
1973	63.32	2.75	57.83	1.36	30.27	110.2

SWEDEN

A price support scheme provides for "middle" prices, price limits and import levies to be fixed for milk and dairy products. The import levies are kept constant as long as market prices stay inside the stipulated price limits. For liquid milk, no lower price limit is fixed, as in practice there is no import of liquid milk. However, in the interest of consumers, an upper limit has been determined and this is adjusted in accordance with the general agreement on agricultural prices.

An equalization fund (the regulation fund) is used to ensure that milk producers receive the same price for their milk deliveries regardless of utilization. For this purpose, fees are levied on processing and sales of dairy products, the proceeds being redistributed to dairies as an equalization allowance to stabilize producer prices of milk. Corresponding compensatory fees are imposed on imports of dairy products. The proceeds of these fees are also used to regulate the seasonal fluctuation of milk supplies by giving extra allowances on producer prices in low production seasons and to compensate for regional differences in product costs.

Since 1965, a special subsidy has been paid to lower retail prices of liquid milk, and a rebate is given on butter sold to public institutions in order to stimulate the domestic consumption of butter. Payments from the fund include also aid for exports, aid for production of butter oil for the margarine industry, quality premiums for cheese, support for storage of dairy products etc.

From 1 July, 1974, milk producers were granted a special payment graduated according to deliveries of milk. For deliveries between 500 and 5,000 kg per month, producers are paid an additional 5 öre per kg milk; for deliveries between 5,000 and 6,500 kg per month, a lump sum of S.Kr 250 per month is paid and for monthly deliveries above 6,500 kg, the lump sum is reduced by S.Kr. 25 for every 500 kg the delivery exceeds 6,500 kg. This means that no extra payment is given for deliveries exceeding 11,000 kg per month. The payment is intended as a special support for low income farmers.

SWITZERLAND

In the Swiss dairy sector specialised cooperatives dominate. They are grouped into 16 regional federations which set up the Central Union of Swiss Milk Producers. Each local dairy association may operate as a milk collector and processor or as a collector only.

The dairy sector, the main source of revenue for Swiss farmers, faces problems similar to those in other European countries, namely constant demand and steadily increasing productivity. One basic Swiss call is to slowly reduce the dairy herd and expand beef and arable production.

Price policy is the main instrument with a price guarantee to producers throughout the country. The selling price of dairy products however does not cover completely the costs, and the bulk of the losses are financed by Federal subsidies and consumer taxes. The Central Union of Swiss Milk Producers, a producers' cooperative organisation, withholds part of the basic price for milk to cover the producers' contribution to the Dairy Account as well as for sales promotion.

The greatest importance is attached to the export of dairy produce. Nearly half the cheese production is exported, accounting for 45% of total agricultural exports.

Most cheese is sold under an obligatory cheese delivery scheme to the Swiss Cheese Union, the organization of cheese wholesalers, whose members are required to pay prices fixed by reference to the basic milk price and processing costs. There are premiums for high quality deliveries. Wholesale prices, domestic or export, are imposed by the wholesale organization and the government, with losses mainly covered by the latter.

Liquid milk retail prices are supervised. Butter prices are fixed, and guaranteed by means of intervention purchases by the Swiss Butter Supply Agency, which has an import monopoly.[1] The agency credit import levies to the Dairy Account, which suffers a loss from butter production since retail prices are lower than production costs.

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[1] Switzerland, granted a special position by GATT, is allowed to maintain import restrictions if these are required for the implementation of its agricultural legislation.

Given the rapidly rising costs of guarantees, the system was modified by means of a limitation of price guarantees up to a fixed quantity of total milk deliveries and a priority system for milk utilisation to discourage the production of butter which causes the highest losses. Given the necessity to curb expansion of milk production, cow slaughter programmes and beef conversion premiums have been introduced, without however achieving the desired results.

The modifications introduced to the guarantee system have failed to prevent the production of surpluses (deliveries to dairies rose by a further 4% in 1976), so that the Swiss government plans to introduce a quota system in 1978. The government will fix basic quotas at the beginning of each year which will take into account previous deliveries and farm size. Deliveries to dairies in excess of quotas will be charged a levy. No agreement has yet been reached on the maximum delivery to be allowed per hectare, but it will probably be between 8,000 - 10,000 litres.

THE UNITED STATES

Guarantees to producers in the United States are based on support prices for manufacturing milk and import quotas. The support price for manufacturing milk covers more than half of the deliveries to dairies and is set at such a level so as to ensure adequate supplies. Cheddar cheese and non-fat dry milk are removed from the market at prices fixed at the beginning of each marketing year in order to realise these support prices and in the early 1950s and 1960s purchases amounted to 10% of production so that balance was restored by reducing the support price to 75%.

Imports are closely controlled with import quotas established for most dairy products and allocated between individual countries. Imports represent only 1.5% of domestic milk production.

Cooperatives account for about 75% of milk and cream marketing. Virtually all sales of liquid milk and cream pass through Federal Marketing Orders and Agreements designed to permit orderly marketing. Federal Market Order Programmes are designed to ensure a steady dependable supply of wholesome milk for fluid markets by establishing prices that are reasonable in relation to economic conditions. Minimum class prices are established which distributors must pay for milk according to its intended use, and producers in each Federal Order receive a pool price. Though some Milk Orders seek to encourage continuous milk supply throughout the year, they do not contain provisions to control supplies or restrict marketing. The government believes that dairy farmers should take joint action of their own to maintain a market balance.

The United States faces an almost unique situation in that milk cow numbers have decreased markedly and the increase of feedstuff prices has slowed down the increase in milk yields. Milk production has shown therefore a decline in trend. Consequently, in recent years the government has taken action to ensure adequate supplies by increasing the support parity from 75-80% with a promise by the Secretary of Agriculture that the dairy situation would be reviewed twice yearly. Again the fall in production and increase in consumption prices in 1975 were substantially above support levels and the price increase was considered necessary in order to encourage producers to stay in the dairy sector.

In the United States, mixed regional organisations linking producers and distributors, and resembling regional marketing boards, may assume authority for orderly marketing programmes which become binding if accepted by a referendum. In 1969, a milk quota system with transferable quotas was introduced in California, as a logical development of private control arrangements between producers and the dairy industry. 70% of farmers were in favour. Milk producers receive a progressively declining price for milk supplied above 82% of amounts defined by a base period.

It should be mentioned that in 1962 the United States government supported a supply management programme based on negotiable quotas, but the idea was abandoned due to producer opposition.

AUSTRIA

Almost two-thirds of the milk produced in Austria is delivered to dairies for processing, while 15% is used for fodder purposes and 22% is consumed on the farm or sold direct. The dairy market is organized by a central authority - the 'Milchwirtschaftsfonds' (Milk Marketing Fund) - which supervized all dairies, the majority of which are cooperative undertakings. Producer prices for milk are uniform throughout the country, but they may vary according to fat content or as a result of differences in quality. The milk produced is divided into three categories for which supplements are paid.

A special supplement is also applied to the price for milk suitable for the manufacture of hard cheese, which is produced mainly by farms in mountain areas. Processing and distribution cost margins are also regulated, as are the retail prices for milk, butter and the main types of cheese. Retail price maintenance does not, however, apply to other milk products such as cream. This system of fixed prices at both the production and the consumption stages calls for an extensive system of measures for the stabilization of the market. These measures include the regionalization of processing and distribution (dairies close to centres of consumption produce proportionately more liquid milk for consumption), the approximation of transport and processing costs, and the harmonization of prices and profits. The system as a whole is extremely complicated as it is ultimately based on calculations made by the Milk Marketing Fund for each individual dairy.

The shortcomings of the Fund are due mainly to the inadequate differential between producer and consumer prices.

The strict control of the domestic market calls for corresponding import and export control.

Imports are subject to State approval, except for cheese which may be imported freely. A levy is charged to compensate for the price differences in imported milk products.

Support is provided for the export of milk products in cases where world market prices are lower than domestic prices. This applies in particular to butter. Export aid is financed partly from surcharges on the consumer price for milk ('Fonds zur Marktentlastung') and partly from a state charge withheld from the producer price ('Krisenfonds'). The amount withheld ('Krisengroschen') depends on the market situation, the decision on this resting with the Ministry of Agriculture. This method, whereby the producer price is reduced in periods of surplus, has so far yielded positive results in Austria. The highest 'Krisengroschen' rate applied in recent years was roughly 8% of the producer price for milk.

Another measure for restricing production consists in obliging producers to buy back certain amounts of butter and cheese, the exact quantity of which depends on the volume supplied by each producer.

Furthermore, in recent years a number of programmes have been applied involving sales at reduced prices (e.g. butter and butter fat) and supplies of cheap milk to schools and army canteens.

PART THREE: ALTERNATIVES - ADVANTAGES AND DISADVANTAGES

I. Maintain existing policies

A. Commission's action programme

(a) Regulation introducing a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds

It is clear that the imbalance in the dairy products sector can only be overcome if measures are taken simultaneously to reduce supply and expand markets. The Council regulation introducing a system of premiums for the non-marketing of milk and milk products and for conversion aims at certain kinds of agricultural holdings where assistance in the non-marketing of milk and milk products could be given.[1] On application, a premium is granted amounting to a percentage of the guide price for milk obtaining on the date when the application is approved; the producer must fulfil certain conditions and sign a five-year contract. Since Italy is not self-sufficient in milk products, it is authorized not to implement this premium system. It is laid down that where in a Member State the number of dairy cows has been reduced by more than 20% between 1 January 1969 and 31 December 1975, that Member State shall be authorized not to implement this premium system. One advantage of this system is that the smaller holdings in particular will be encouraged to cease milk production and this will entail a simultaneous improvement in the agricultural structure in that small herds will disappear more rapidly. The system is therefore in line with structural policy and can contribute towards a concentration of milk production in the most suitable area. The importance of such a system for structural reform is obvious when we bear in mind that some two-thirds of all dairy farms have less than 10 cows. Reference has already been made, in the discussion of the production structure Chapter II, point 4, to the way in which the poor dairy-farming structure makes it difficult to solve the problem of dairy surpluses. The major feature of this system is the incentive being offered to accelerate the restructuring of the dairy-farming sector through continual decrease in the number of holdings in the Community. The Committee on Agriculture has already referred to the need to make the premiums sufficiently attractive to speed up the slaughtering programme and to encourage the cessation of farming. It pointed out that the premiums must compensate for loss of income and that special attention must be given to the prevention of fraud. The premiums can be added to the support given within the framework of programmes to eliminate brucellosis, tuberculosis and leucosis. It should be noted that the implementation of such a system to reorganize the dairy market is limited by the absorption capacity of the beef market. We cannot solve the dairy problem by indiscriminately increasing beef production. We must take account

[1] Council Regulation (EEC) No 1078/77, 17.5.1977, O.J. No L 131, 26.5.1977,p.1.

not only of the need to limit milk production but also of the other side of the coin, the situation on the beef market. In 1977 and 1978, beef production is expected to fall further but there should be a subsequent upturn. The cyclical fluctuations on the beef market and the changing patterns in beef consumption must therefore be estimated as accurately as possible.

(b) Cessation of farming

As regards cessation of farming, the Committee on Agriculture has already said that the premium system for non-marketing and conversion must be effectively combined with opportunities to cease farming. It has already been noted in Chapter II that cessation of farming is likely to be successful only if dairy farmers have genuine alternative sources of livelihood inside or outside agriculture. Apart from this factor, which limits the scope for cessation of farming, it should be noted that, given the restricted mobility of the people concerned, a policy aimed at cessation of farming cannot be expected to give immediate results. The low degree of mobility stems from the fact that the farmers' skills are specifically linked to agriculture and cannot be transferred to other economic sectors. The possibilities of vocational training are also more limited in rural areas than in those with a proper industrial infrastructure. In terms of training and development agricultural workers have therefore not been able to keep pace with other categories and consequently run a major risk if they give up farming. There are also psychological barriers which prevent the farmer from giving up his job. Special measures - financial, as well as others, relating to training and development - are therefore essential if farmers are to be persuaded to give up farming. In the light of these factors, it is understandable that in this context most attention has been paid to farmers in the 55-65 age group, where cessation of farming may be equated with early retirement, and to farmers who for reasons of health are no longer capable of properly running their farm. If we are to improve the structure of dairy farming however, more farmers must give up farming: in the long term this can provide a solution to the imbalance in the dairy market and the precarious livelihood of dairy farmers. Cessation of farming within the framework of Directive No. 72/160/EEC must therefore be encouraged in conjunction with the premiums for non-marketing and conversion, which are more effective in the short term.

(c) Stimulation of consumption

Together with measures to restrict supply, the Commission's action programme contains a number of proposals to expand markets, extend the school-milk programme and industrial measures to promote sales, market research and product development, together with the processing of dairy products into certain foods. The Committee on Agriculture has approved these measures and noted that the consumption of milk and dairy products within the Community would have to be increased by means of better quality, accurate information

for the consumer, improvement in distribution networks and presentation, and the promotion of sales to schools and the more needy social classes. An increased levy on the price of skimmed milk could make this product more readily available to pig and calf breeders, but we must nevertheless bear in mind that skimmed milk competes with soya, the price of which can fluctuate considerably on the world market. Moreover, structural alterations to holdings, leading to the gradual disappearance of skimmed milk in liquid and powder form for animal feedstuffs, considerably hinder its sales potential. The pressure on the international market for skimmed milk powder is still strong and the sales prospects for this product via the normal commercial channels consequently remain slight. The supply of milk powder as food aid is therefore the only outlet which can be expanded; emphasis must consequently be laid on increasing the proportion of milk powder in the Community's food aid programme; we must note here again that it is not simply a matter of reducing the stocks of skimmed milk powder but that prime consideration must be given to the requirements of the developing countries. In an international food aid programme, the Community must make available a larger proportion of its milk production to the developing countries, and systematic investigation must be carried out into how the consumption and sale of milk products can be promoted in the tropical countries. The conclusion of long-term export contracts with third countries may be mentioned in this context. As for encouraging butter sales, temporary subsidies might be granted to keep butter consumption steady, but it is debatable whether these subsidies are an effective instrument for dealing with surpluses in the long term. There is a risk that, in the long term, butter subsidies will have an undesirable effect if the consumer, who has gradually become used to subsidized butter, is then faced with a gradual decrease in the butter subsidy and higher prices. This could result in a sudden decrease in butter consumption.

Finally, the Community must actively promote sales inside and outside the EEC but, given the trends in the consumption pattern described in Chapter IV, the substitution of vegetable products for milk products and the low elasticity of income arising from the demand for the milk products, it will remain very difficult to achieve a lasting increase in consumption.

B. Structural policy

The Community's structural policies, implemented in order to increase the efficiency of production, are now aggravating the problem of surplus production rather than solving market imbalances as intended.

For example, farm buildings constitute a major limiting factor to increasing milk production. Yet Community grants have been provided to improve dairy buildings, thus increasing production capacity. All Community grants to improve production capacity in the dairy sector should be ended.

C. Price policy

The Commission's annual price proposals, while taking into account the trend in costs and prices on the modern farm, also seeks to take into account the supply and demand situation in the markets concerned, in order to maintain or re-establish equilibrium of market.

It is difficult to see how far price policy of itself can be employed as a market as well as an income policy, given the political limits with which price policy is confronted. It has been estimated that to achieve an effective cutback in milk production, intervention prices for milk products would have to be reduced by 20% to 25%. This would clearly be unacceptable to the Council. In fact, any reduction would have little chance of being accepted, though it is true that over a period of years a stabilisation in the price would result in an effective reduction, given the present rates of inflation and the rapidly increasing costs in production.

There is a danger that a simple limitation or minimal reduction in the milk price would simply lead to an increase in cow numbers and milk production as producers seek to maintain their income levels.[1] If this were to be done with the use of increased quantities of feedstuffs, additional political pressures would be created for an increase in the milk price.

On the other hand, increasing the stability of milk prices might lead to an increase in consumption (or a slowing down in the reduction in consumption) and so ease the market imbalance.

There are also a number of structural limitations to the effectiveness of price policies.

The small farm, for example, has a few alternatives in its production patterns. For the small farmer in the northern countries of the Community there is little alternative to milk.

The possibility of flexibility in production can only be said to exist on the larger farms : but in the Community 78% of farms as a whole have an area of less than 20 hectares. On the other hand, those farms of more than 50 hectares, while representing no more than 6% of total farms, occupy more than 40% of the UAA. However, even for this group, it may not be possible to improve agricultural incomes by increasing production of one product to take advantage of a particular price hierarchy if substantial investments have been undertaken.

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[1] This thesis does not correspond to observations made and is contradicted by the results of economic analysis; supply elasticity in agriculture is low.

The possibilities for substitution are limited,without direct aids, between animal and vegetable sectors, and even between dairy cows and beef cattle.

The most important factor in influencing production trends is not the support prices, but the producer prices. This indicates that, where attempts are made to influence the use of agricultural land, as much attention should be paid to the effectiveness of the market organisation and management of particular sectors, as to intervention price levels.

Price policy has the greatest effect when employed to modify the hierarchy of prices for products within a particular sector. This has been clearly demonstrated in the milk sector for which the Community support price is split into two elements : the butter element and the skim element. Between 1968 and 1971 this split was divided as follows : 71% of the intervention price was paid on the butter element and 29% on the skim element. But, to tackle the butter surplus, this split has been significantly modified. In 1971 payment for the butter element was reduced to 68% of the total. In 1972 it was reduced to 65%, in 1973 to 58%. Then, in response to the controversy over sales of surplus butter to the USSR, the ratio was reduced to 53% butter/47% skim in 1974. What was done, effectively, was to maintain and increase producer milk prices by holding the price of butter static, while increasing the price of skim powder.

This distortion of the market was quickly reflected. Effectively, the intervention price for butter was unchanged between 1971 and 1974, while the intervention price for skim powder was increased by 40%. Consequently, the demand for skim powder evaporated - and the surplus skim stockpile soared.

Since then the ratio has been very slightly reversed. Today the butter element gets just over 56% of the intervention price.

Conclusions concerning 'Action Programme'

The Commission's 'Action Programme' has failed even to offset increases in production resulting from improved yields. Structural policies, by increasing production potential, have aggravated the problem of market surpluses. Price policy, since it is intended to maintain incomes of farmers, cannot be employed effectively to control production. Clearly, new instruments in the dairy sector are urgently required if the problem of surplus production is to be solved.

The present co-responsibility levy is established at a fixed amount. In the Commission's original conception, and according to its latest proposal, the levy should vary according to the degree to which production exceeds market requirements.

A variable levy could be combined with social measures to aid the smaller and less-favoured farmer, so as to reduce the political pressures caused by its introduction:

(a) the smaller farmer (producing, for example, up to 50,000 litres) could be exempted from the levy, and/or

(b) part of the receipts could be employed to finance direct income payments or improvement grants to farmers in less-favoured regions.

A variable levy might be an effective system to control the supply of milk, as well as financing measures to dispose of surplus production.

The first condition would be that there be no limitation on the variation of the levy.

The second question concerns the level at which a price decrease would reduce production. Given the favourable soya/milk price ratio, and the fact that the major part of production and production increases are from the larger farms, a number of experts believe that prices would have to be reduced by 20 per cent to cut production significantly. Clearly, for obvious political reasons the co-responsibility levy would not reach this order of magnitude.

Therefore the effectiveness of the co-responsibility levy, even if strengthened, would depend on whether receipts would be sufficient to dispose of future surpluses.

This would, in turn, depend on

(a) the cost of such operations and world price levels; and

(b) the future trend of milk production.

Given the potential for many regions of the Community to increase yields and production, there can be no certainty that a variable levy would provide a sufficient answer to the problems of surplus production.

One can say, at the same time, that a variable levy resembles, to a limited degree, proposals for a quota system. As production increases beyond required amounts, Community prices are to be reduced.

One should, therefore, examine the question as to whether quotas, on individuals or fixed in global terms, would not be a more efficient instrument in controlling production.

III. Quantitiative limitations on production

a) individual quotas

As long ago as March 1969, in a report drawn up by the Committee on Agriculture[1], the European Parliament called on the Commission 'to investigate without delay the possibility of introducing a quota system for the supply of milk or a licensing system for dairy farming. The rapporteur felt that in this connection particular attention should be paid to the possibility of introducing a system of negotiable certificates, which would be admitted to stock exchange quotation, for supplying milk to dairies'.

Detailed studies of the quantitative control of agricultural supply have been carried out at the request of the Central Committee for Agriculture in Germany. The following summary briefly describes this instrument for the stabilization of the milk market, which has recently been attracting more public attention.

The Community's increasing level of self-sufficiency, particularly in the field of dairy products, calls for a quantitative adjustment of supply to demand.

The quantitative adjustment of supply in the agricultural sector has hitherto been largely rejected as a dirigistic measure even by experts. Technological progress and relatively low price and income elasticity combined with the inadequacies of the European agricultural policy have brought surpluses in a number of agricultural markets to unacceptable levels.

This makes it quite impossible to achieve comparable incomes in broad areas of the agricultural sector by means of an active price policy. The position of agriculture within the economy as a whole is particularly unfavourable. It cannot adjust production volume and hence supply specifically to meet demand. This has resulted in the notorious measures to eliminate surpluses and in steadily increasing intervention expenditure.

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[1] Report by Mr Lücker (Doc. 227, 10 March 1969)

One of the proposals drawn up by the study group makes provision for the amounts of milk supplied to dairies by individual producers to be monitored over a reference period. Producers would then receive from their dairies a market share certificate based on the volume supplied during the reference period. If they then delivered more than the amount specified in their market share certificates, they would have to accept considerably lower prices for the excess, which in some cases would even fall short of the marginal costs for milk production. The short-term aim of this proposal is to bring the present unchecked growth of surpluses of the market for milk and milk products under control. The long-term objective is to adjust supply to meet demand.

The main objection raised by agricultural experts and economists is that quantitative control measures will lead to excessive structural rigidity. However, this argument would only apply if the market shares or supply certificates initially granted to individual farms were not transferable. On the other hand, a flexible system for such certificates could even encourage the desired structural changes. The recipient would purchase the certificates from their holder, which should considerably increase the incentive to transfer rights. Since structural change would then occur within the limits of the overall absorbtion capacity of the market, farmers buying certificates would be able to assume responsibility for the volume of production concerned because they would know they could safely count on a given price level guaranteed as a whole by quantitative restrictions.

The common assertion that quantitative supply restrictions would automatically limit the income potential of producers fails to take account of the only long-term alternative. If production continues unchecked everywhere, producer prices are bound to drop over the entire supply range to levels at which the surpluses will be eliminated. By comparison with a development of this type, direct specific quantitative control amounts to a guarantee rather than a reduction of income.

It is also claimed that direct control measures for the qualitative restriction of supply would be dirigistic and therefore incompatible with the principles of the prevailing free market system. However, it should be remembered that in almost all economic sectors other than agriculture, careful quantitative control of production and supply is one of the accepted and even mandatory functions of entrepreneurial activity.

Sales departments determine how much more of a product can be marketed at a profitable price. However, the relevant decisions are usually taken secretly, behind the office doors of the undertaking's managers. In agriculture this is not so because the individual production units providing the overall supply - with its very limited degree of differentiation - cannot exercise any appreciable influence over the market with their own quantitative provisions. Thus, the ever invisible but very effective manipulations which in the industrial sector constitute a prerequisite for a relatively balanced interplay between supply and demand must be carried out openly in the agricultural sector. In reality, however, this apparent dirigism is not out of place in the prevailing free market system; it in fact constitutes a prerequisite for the balanced integration of agriculture into the general economic pattern of supply and demand.

Moreover, State authorities will have to continue to fix prices for agricultural products if only for the purpose of border compensation vis-à-vis the world market'. Only in this way is it possible to ensure that agricultural workers are not placed at an unreasonable disadvantage. Moreover, by fixing prices the State can prevent the abuse of quantitative control. State price fixing for agricultural products is not necessary for quantity control alone; however, without such measures, it cannot be fully effective for products which would otherwise be in surplus.

Many attempts at quantity control have so far been unsuccessful, as can be seen from the over-production of wheat in the United States despite legislation limiting production and other statutory measures to back up this legislation.

In this connection it should be noted that measures to limit production and supply may be designed either to influence the factors of production (particularly land area and livestock) or to exert a direct effect on the volume of products reaching the market. Where restraints apply only to the factors of production, there is a risk that the market effect will be counteracted by more intensive use of the available land or livestock. Direct quantitative control of supply, on the other hand, leaves the individual producer free to decide how intensively he will use the available land to achieve his market quota and/or how many animals he will keep for this purpose. For the practical implementation of quantity control measures, it would probably normally be expedient to use a combination of the above alternatives.

b) Maximum guaranteed quantities

In contrast to the complications of individual quota systems, maximum guaranteed quantities offer the advantage of simplicity in implementation. As with individual quotas, maximum guaranteed quantities can take a variety of forms. The basic idea however is common to all: that the price guarantees to a particular product or products shall not be granted, or shall be reduced, to amounts produced above a predetermined quantity (the quantity being fixed by reference to production in a base period or to consumption requirements).

In the United Kingdom, with increase in milk yields causing production to outrun inelastic demand, depressed markets created a steadily rising trend of treasury liability. In 1953, therefore, the volume of milk for which producers in each marketing board could obtain the guaranteed price in any one year was limited to a "standard" quantity (previous year's consumption of liquid milk plus a reserve of 20 percent).

Producers therefore benefit from any increase in consumption, and are penalised for an increase in production or a decrease in consumption.

The Commission's original proposal for a variable coresponsibility milk levy clearly bears a strong resemblance to a maximum guaranteed quantity.

Such a system has the important psychological advantage of clearly indicating to producers the need to restrain production and, when based on an agreed formula, partly removes discussions of farm prices from the political arena. The system also provides a source of revenue which may be used for financing support or promotional measures in the milk sector.

The system has been criticised on the grounds that it does not differ in principle from one based purely on periodic modifications in guaranteed prices, while complexities in administration are introduced and greater uncertainties for farmers since the final price they receive may be calculated after the milk has been produced. This criticism, however, ignores the political realities of price reviews, underestimates the psychological importance of a clear statement of intentions by the central authorities, and disregards the observed importance of the system in limiting costs of guarantees.

This system was operated in the Netherlands between 1958 and 1962, without apparently restraining milk production. Such a system may protect the budget, without achieving market balance . Whether such a system alone is sufficient will depend on the structural situation and political objectives.

IV. Modification of the present market organization

(a) Reduction of intervention prices for milk and milk products, with a system of income transfers, particularly to help the smaller farmer and disfavoured regions

Intervention prices could be reduced or limited for butter or skimmed milk powder, or both, and could be applied in a number of ways:

(i) uniformally throughout the year,

(ii) intervention limited to a specific period of the year, and

(iii) regionalization of intervention prices.

Such a system would deal effectively with the problem of surplus production. Consumption would be increased, particularly of butter and cheese. Intervention limited to a specific period may lead to severe price fluctuations which could reduce consumption. A reduction in intervention prices according to regions might reduce surplus stocks by encouraging consumption in the producer area.

Direct income transfer to disfavoured producers would alleviate certain social problems which provide political obstacles to reducing intervention prices.

(b) Introduction of a guaranteed minimum price of milk to producers, with a reduction in intervention prices for milk products

The advantage of such a system is that it would increase the responsibility of the dairies for the disposal on the market of milk products. Farmers' incomes would be maintained. Community funds presently employed in funding intervention and export refunds could be used directly to finance the prices paid to producers, either directly or partial financing of the milk purchased by dairies. The milk so purchased could be sold at prices differentiated according to final use. For example, milk delivered to cheese and butter factories could be sold at a lower price, so reducing the cost of the final product and increasing consumption.

A system of guaranteed producer prices would best be combined with quotas on milk production.

V. Conversion to non-milk production

Efforts to limit milk production can be directed towards converting milk production into other forms of production. Beef is one such alternative but requires considerable investment, together with restricted market prospects

given the price elasticity. Field crops do not come up against this type of problem, and the relative ease of production, as well as the generally better guarantees offered, might have the effect of extending the tillage area at the expense of areas now under grass. The result might well be an extension in grain-growing, grain being more easily stored and, moreover, responding to the vital needs of many developing countries.

(a) Conversion to beef production

(i) Modification of the milk/beef price ratio

Most of the possible solutions so far considered would lead to a reduction in the milk payment price. The implementation of one of these measures would mean that, if beef and veal prices remained unchanged, fattening would be encouraged as a result of the modified price ratio. For more effect, the reduction in the milk price could be supplemented by an increase in the guide price for beef and veal, especially since rising incomes should be accompanied by an increase in the demand for such meat. The other alternative, i.e. the maintenance of a constant milk price and the introduction of a higher guide price for beef and veal, would probably not be as effective as the above measures for modifying the price ratio. Production policy is decisively influenced not only by the price ratio itself, but also by the absolute price levels for milk and beef. If the ratio remains constant, high prices encourage dairy farming more than fattening and vice versa. The evidence given in Section III demonstrates many factors influence production and that it is by no means certain that a change in the price ratio would increase beef production and reduce milk production.

Consequences

Assuming economically sound behaviour on the part of producers, an increase in the price ratio - with low milk prices - would enhance the competitiveness of beef fattening vis-à-vis dairy farming.

This measure would contribute to the achievement of the desired objective not in the short term but in the medium and long terms.

Since it is impossible to say precisely to what extent a modified price ratio would result in conversion from dairy farming, the effects on expenditure are difficult to predict.

(ii) Beef conversion premium

We have shown already that the existing beef conversion premium has had little impact on milk production. It is possible that if the premia were increased and the market organization for beef increased that a reduction in milk production could be achieved. It is unlikely, however, that given the more favourable return from milk production, that such measures should only be seen as a complement to other policies rather than as the principal instrument.

(b) Conversion to vegetable protein

The Community has adopted market measures to encourage the production of dried fodder, field peas and beans. Given the stability of land use, the importance of milk production to the liquidity of the farm, and climatic and soil factors, that such measures can make only a marginal improvement to equilibrium in the dairy sector.

(c) Conversion to cereal production

The United Kingdom provides an example of direct methods to encourage the conversion of pasture into arable land by means of lump sum payments.

Following the abandonment of protection for wheat production in the middle of the Nineteenth Century, the decline in the acreage under the plough remained a constant factor.

Despite the blockade, the First World War made little impression on the arable acreage until 1918. As a result of ploughing orders and minimum price guarantees, there was a sudden increase of 1.5 million acres of tillage in that year, partly by ploughing up permanent grass and partly by reducing the temporary grass acreage by 400,000 acres. This increase was largely retained until the repeal of the Corn Production Acts in 1921; the downward trend was then resumed at an even faster rate. The world depression of the early 1930's led indirectly, through the introduction of import duties and quotas and subsidies, to a small increase in the extent of tillage, but the decline in the arable acreage continued, largely because of the steady loss of improved land to urban development, and the lowest arable acreage was recorded in 1938.

The threat of war led in the spring of 1939 to the passing of the Agricultural Development Act, under which a grant of £2 per acre was offered for permanent grass ploughed up during the following summer. The measure came too late greatly to affect the 1939 arable acreage, but it

marks the beginning of a new trend; the offer of ploughing grants was renewed, compulsory powers were assumed, and the arable acreage increased by more than a million acres in each succeeding year until 1943, with a further advance of half a million acres in 1944.

But it was not maintained; in spite of guaranteed prices and continued agricultural prosperity, the arable acreage began to fall. Ploughing grants had been abolished in 1949; the continued fall in both arable and tillage acreages persuaded the government to introduce similar and larger subsidies in 1952 under the Agriculture (Ploughing Grants) Act, which arrested the decline.

There are certain conditions that must be fulfilled for a policy of ploughing up pastures to succeed: firstly soil and climate; and secondly that the level of return from arable production will be sufficient to make the conversion a continuing viable prospect. In a system of guaranteed prices, either through deficiency payments or an intervention system, the latter condition exists for the larger farm, but for the small farm, it is likely that permanent additional subsidies would be required.

VI. Modification of fat/protein price relationship

Payments for milk are at present based on a fat to non-fat value ratio of 68:32.

The average protein content of milk is about three per cent.

According to Stamer[1] - who put forward this proposal - up to 198 mua could be saved on skimmed milk aid in the EEC by modifying fat/protein pricing in favour of protein and combining this with increases and reductions for the ballast element (water). The same amount of fat would then be produced in less milk and, at the same time, the milk protein yield would be lower.

Consequences

In this way it would theoretically be possible to reduce expenditure on aid for skimmed milk. Business advantages would accrue from the fact that the production of more highly concentrated milk would result in lower transport costs and reduce milking times.

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[1] See Stamer, H: Marktwirtschaftlich Probleme der Milchproduktion, paper delivered in Hanover 5.10.1967, and
Stamer, H: Marktwirtschaftliche Uberlegungen zum Problem: Milch oder Fettmenge?
Agrarwirtschaft, vol. 8, 1966, p. 255

This measure could only yield the desired results in the long term since it would first be necessary to breed livestock meeting the requirements for a change in the method of payment. Moreover, it is doubtful that the increases in the price of cheese and skimmed milk powder resulting from the modification of the fat/protein pricing system could occur without any drop in consumption. However, butter consumption would be stimulated by a reduction in prices.

These arrangements would be successful only if, with a constant cow population, the milk yield per cow declined as the concentration of milk constituents, the cow population declined.

VII. Increased milk fat content

The consumption of butter fat could be increased considerably (by about 96,000 t) by raising the fat content of drinking milk from 3 per cent to 4 per cent. An increase in fat content of less than 0.5 per cent would not appear to be expedient since it would not improve the taste of the milk.

Consequences

Under this system, butter surpluses could be considerably reduced, and this in turn would result in a decrease in expenditure. The increase in the fat content of drinking milk would produce a large increase in consumer prices. Politically speaking, such a price increase would scarcely be feasible. However, increases in the price of drinking milk (with an unchanged fat content of 3 per cent) are necessary if this commodity is to make the planned contribution to the achievement of the target price.

It would also be possible to increase the fat content of drinking milk without changing the price. However, this would have the effect of reducing the producer price for milk by a certain amount if the costs of the increase in the fat content were not met out of public funds.

VIII. Limitation on production imputs

Given the complexity of quantitative limitations on production, there have been suggestions that the same result can be achieved through increases in the price of production imputs and in particular that the price of feeding stuffs should be increased through tariffs or taxes and that the dairy industry should no longer have access to capital resources at more favourable terms than other economic sectors by means of special aids and low interest rates.

In general these suggestions can be criticised since they will penalise efficient producers and eventually increase the price of milk and milk products to the consumer, thus reducing demand and increasing the problems of market balance.

(a) Increasing the price of feeding stuffs

As stated above, increased use of largely imported feeding stuffs is a major cause of the increase in milk production, leading to calls for increased tariffs to reduce their use, and also to lead to a switch to less intensive grassland production.

Making feedingstuffs expensive by artificial means has, however, also some drawbacks of which the following are mentioned:

1. More expensive concentrated feedingstuffs leads to higher costs for the dairy industry. This drawback, however, is not great if the proceeds of the tax are paid into a fund that is used, directly or indirectly for the benefit of the dairy farmers.

2. Pig farmers and poultry farmers will - insofar as the fodder market for these sectors cannot be separated from that for the dairy industry - also be confronted with higher costs, and market conditions for pigs and poultry are not (yet) such that a restriction of the output is deemed necessary.

3. The interest of countries exporting concentrated fodder are adversely affected, which may give rise to international friction.

An important consideration in the forcing-up of fodder prices may be the probable effect of such a measure on the volume of milk output. It should be taken into account that at the utmost 40% of the milk production is produced in winter when the cattle are stall fed in many countries this percentage is still low. It is only this quantity which will possibly react to a price increase of fodder. Besides, the share of the ingredients whose prices are forced up does not amount to more than 25-30% of the total price of concentrates (oil cakes etc.).

Further, concentrated feedingstuff is a less specific means of production than milk cows. A price increase of fodder can, for instance, be compensated by an improvement or an extension of the production of home produced feeding stuffs on the farm (hay, forage).

A study of the Netherlands Economic Institute came to the conclusion that taxes on concentrated fodder is not very effective. It was calculated that a tax of 25 to 30 percent would be needed to arrive at a decrease of the EEC milk output of only a few percent.[1]

Also in an American study of a somewhat earlier date, it is doubted whether it is effective to force up prices of fodder.[2]

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1 Annual report of the Landbouw Economisch Institut "Netherlands Institute of Agricultural Economics", 1968, p. 39

2 A study of alternative methods for controlling farm milk production and supporting prices for milk and butter fat, letter from the Secretary of Agriculture, Washington 1955, p. 32-33

(b) Increasing the price of capital

Agricultural benefits from capital at lower than average terms through national and Community aids, and also through reduced rates of interest. The Commission has proposed a suspension for three years of all aid to investment designed to stimulate milk production, both as regards the production stage and investment in dairies. Aid to hill farming and other problem areas would not be affected by this.

A sudden ban on aid would not only have far-reaching consequences for national agriculture but could also very well conflict with the objectives of the common structural policy on the modernization and enlargement of efficient farms. This policy will therefore meet with considerable resistance and can be implemented only with great difficulty. There is a danger that if aid is completely abolished, the Member States will revert to some form of direct or indirect support system, over which it is very difficult for the Community to exercise control. Consideration should, therefore, be given to the possibility of achieving the same result by a gradual reduction of aid. The higher the investment, the greater could be the reduction in aid[1].

It is politically impossible to envisage an attempt by the Community at this moment to ban the favourable rates of interest enjoyed by milk producers, particularly in view of the varied sources of such low interest rates (farmers' cooperatives and national schemes etc.) It should however be possible to envisage in the future greater attempts to harmonise this form of indirect aid throughout the Community so as to prevent distortions in competition.

IX. Increasing exports and food aid

(a) Exports

Insufficient attention has been paid so far to ensuring that the mechanisms of the Community market organisation for milk encourage rather than impede export efforts. Competition on the international market intensifies, while delays in fixing Community prices and the sometimes confused position concerning restitutions has resulted in buyers delaying decision on purchases.

Greater coordination of export efforts could be envisaged, with emphasis placed on quality and brand names where possible, together with in depth analysis of the requirements of individual markets which are developing in OPEC countries. Central export agencies on the Swiss model may have a role to play particularly in the cheese market for which demand continues to be strong.

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[1] See Report drawn up by Mr de Koning on milk action programme (Doc.)

International agreement may provide an answer to sudden reductions in price on international markets (which cannot always be explained by purely economic factors) in order to provide stability and limit the high cost of export restitutions.

Finally, efforts should be made to encourage the United States to liberalize their import regime for dairy products.

(b) Food aid

Increased amounts of food aid provide a limited answer to the problem of Community dairy surpluses.

X. Production guidance by an ad hoc authority

There are various possible methods of controlling milk production in the Community:

- first of all, a liberal approach using the market price to maintain a balance between production and consumption. That is the system currently used, the main difference being that the intervention price mechanism prevents the laws of the market from being fully effective;

- an authoritarian approach based on production quotas, each producer filling his quota and the surplus being destroyed. Apart from the psychological disadvantages of such a method, the errors inherent in any over-rigid planning - such as inaccurate estimates of future consumption or of available means of production - are a real risk, though not necessarily offsetting the advantages of direct control of supply.

Between these two extremes there is the compromize solution proposed by the Economic and Social Committee in its opinion on the common agricultural policy in the international context[1].

It points out that in the field of production guidance, the need for instruments has so far been less evident than willingness to make quantitative and qualitative choices which take account of trends in consumption and the external relations of the Community.

In the Committee's view, therefore, there is a need for Community-level machinery for study and consultation capable of assisting the official bodies in taking decisions. This ad hoc body, comprising officials and representatives of the relevant branches of activity, would collect the information available on products, markets, prices and costs for the drafting of a kind of medium-term programme.

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[1] OJ No C61, 10.3.1977, p.16

It would also evaluate the impact on the CAP and in particular on its dairy sector of agreements, conventions and associations with non-Member countries.

Finally, in the view of the Economic and Social Committee, the medium-term programme for Community agriculture should make recommendations not only on production guidance but also on research policy, structrual policy and international cooperation in the food sector.

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But is the creation of such an ad hoc authority the best way of resolving the crisis in the milk market?

If its opinions or recommendations are to have the greatest possible impact, this body must be composed of eminent people from each of the Member States.

On the other hand, the overall approach recommended by the Economic and Social Committee is very constructive since it postulates that a problem cannot be solved in isolation from its environment or from international economic relations.

Lastly, the notion of a medium-term programme must be examined. The word 'programme' itself presupposes flexible, French-style planning. There must, however, be either coercive measures (taxes etc.) or incentives (premiums etc.) to ensure compliance with the programme.

XI. Marketing boards

(a) Regional

In France there is a joint trade union, the SIGF, the Joint Trade Union for French Gruyère, which, without being directly comparable with a regional marketing board, is nevertheless of interest for our study.

It is recognized as being the special committee on Gruyère of the National Dairy Economic Joint Trade Centre (see chapter on France) and is composed of representatives of organizations formed of dairy cooperatives or dairy producers recognized by the FNCL (the National Federation of Dairy Cooperatives) or the FNIL (the National Federation of the Dairy Industry). Its internal regulations and any modifications to them are approved by the CNIEL. Contributions received on its behalf are paid into a special CNIEL account. The terms under which the CNIEL may delegate responsibilities to the SIGF or allocate the necessary funds are laid down in a convention signed by the two organizations.

Each year the SIGF prepares a campaign plan for Gruyère cheese that takes account of national production potential and estimated requirements on the national, Community and international markets. This plan sets production targets based on the production estimates of the diversified undertakings and has to be approved by FORMA (the Guidance and Regularization Fund for Agricultural Markets) which, it should be noted, is the French intervention agency. The plan may be reviewed in the course of the year. The production targets do not apply to small cooperatives such as the 'fruitières'.

On payment of a membership fee, the SIGF distributes casein plates to all production plants as part of the campaign plan. Under a 1956 law, only cheese with this emblem incorporated in the rind when produced may be marketed since it is a guarantee of the type of cheese. Moreover, if a factory wants to increase production beyond the production targets it may obtain casein plates from the SIGF but it has to pay more for them. There is thus a penalty to prevent overproduction.

The SIGF has signed a convention with each designation committee for Gruyères of designated origin (Comté, Emmental and Beaufort). (Moreover, each of these committees is represented in the SIGF.) The convention ensures that there is consultation between the SIGF and each of the committees on production targets.

Lastly, in order to prevent overproduction, companies applying for subsidies to invest in Gruyère cheese production must first submit their applications to the SIGF so that it can ascertain whether they are in keeping with modernization and market equilibrium objectives.

(b) at Community level

There are considerable difficulties facing the introduction of marketing boards at Community level to steer production. In fact, those existing at national level, such as the English Milk Marketing Board, arose from special circumstances, such as the lack of forms of cooperation that do exist in other countries; moreover, they can function effectively because of the homogeneity of the territories where they operate. On the other hand it would be difficult to imagine a body of this kind operating in a territory extending from the North of Scotland to Sicily and even one day embracing even the Greek islands and the South of Spain. In an area of this kind the situation on the milk market, production and marketing structures and dietary habits may be too diverse to allow of effective action by a centralized bureaucratic super-board, which would inevitably be remote from the heart of the problems.

Furthermore, who could set up and administer a body of this kind, and who could endow it with the powers it would require to operate properly, because these would inevitably be immense? Certainly not the Community's Council of Ministers, which has always shown extreme reluctance to abdicate any of its powers to other bodies such as the Commission, and which wants at all costs to reserve the right to weigh up carefully the political implications of any decision which threatens to be unpopular or to affect certain categories or groups whose influence varies greatly from one country to another. Serious legal problems would probably also arise, even in some countries that take the most scrupulous care to act constitutionally, with regard both to the binding character of the decisions of such a European super-board and to whether it was compulsory to belong to it or to place production under its wing.

A body of this kind would clearly be resisted by existing national Community bodies jealous of their privileges.

However, if an effective variable levy or a system of quotas were to be introduced, the farmers would request that they be given greater say in the expenditure of receipts from the levy or the fixing of quotas. A marketing board, if limited initially to a consultative function, would emerge. A board endowed with a degree of autonomy would end the present wrangling as to the ways in which receipts from levies should be employed, and which have so far undermined the effectiveness of the original concept of the levy.