Pilot Group on Dairy Products

STATEMENT BY THE REPRESENTATIVE OF THE EUROPEAN ECONOMIC COMMUNITY ON RECENT DEVELOPMENTS IN AND PROSPECTS FOR DAIRY PRODUCTS IN THE COMMUNITY AT THE MEETING IN NOVEMBER 1963

INTRODUCTION

It is unanimously acknowledged that dairy products constitute a particularly important sector of agriculture since they are at one and the same time:

- a source of steady income for producers by providing them with regular earnings throughout the year;
- essential raw materials for processing industries;
- lastly, for consumers, food products which are very much in demand.

The result is that the economic and social aspects are very closely linked in the dairy products sector. The pattern of production and consumption since the 1950's and the present situation, not only in the EEC but in practically all producing, exporting and importing countries, makes forecasting even more necessary than in other sectors.

The European Economic Community has made as close an analysis as possible of production and consumption trends, which made it possible to define the prospects for 1970. Using this study as a basis, the delegation of the EEC, in order to facilitate the start of the work of the Pilot Group on Dairy Products, would like to give some particulars concerning its own situation without trying to cloak the difficulties.

In this rapid and therefore incomplete analysis three points will be dealt with in turn:

- firstly, prospects for dairy production in the EEC;
- then, the probable pattern of consumption in the Community from 1958 to 1970;
- lastly, the advisability, in an effort to overcome difficulties which are not peculiar to the EEC, of envisaging concerted international action and to translate it into a world agreement.
I. Prospects for dairy production in the EEC

1. Recent developments and the present situation

(1) The development in livestock from 1950 to 1960 in the EEC has shown an increase not only in bovine livestock but also in the number of cows.

Out of 22 million cows - the total herd in the EEC in 1958 - only 3 million belong to specialized meat-producing breeds.

Breeds for mixed purposes predominate in the member States where meat production is combined in most cases with milk production as meat has been looked upon for a long time as a by-product of milk.

The ratio of cows to bovine livestock as a whole has developed differently in the various member States, rising in France and in Italy and decreasing in Belgium and the Netherlands.

In all, the number of cows increased by 10 per cent between 1950 and 1960.

(2) The pattern of milk output also shows a wide diversity, according to the member States.

Output, expressed in quintals of milk yield per cow per annum, rose in the EEC from an average of 23.1 quintals in 1950 to 26.4 quintals in 1958. But for this very same year of 1958, output was only 22.1 quintals of milk in France as against 32 quintals in Germany and Luxemburg and 41.4 quintals in the Netherlands.

In all, output rose by 18 per cent during the 1950/60 decade.

(3) The combination of the two preceding factors - the number of cows and output - led to a rise in production of about 30 per cent; dairy production in the EEC rose from 45 million tons of milk in 1950 to 58 million tons in 1958 and 63 million tons in 1960.

It should be recalled that already in 1958 total output of the member States of the EEC exceeded by about 1,700,000 tons of milk the needs of the Community in dairy products. The Netherlands, for their part, were net exporters of dairy products equivalent in quantity to 3 million tons of milk.
The use of this output for 1958 was approximately as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Millions of Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Milk</td>
<td>16.4</td>
</tr>
<tr>
<td>Cheese</td>
<td>9.3</td>
</tr>
<tr>
<td>Butter</td>
<td>21.7</td>
</tr>
<tr>
<td>Animal Feed</td>
<td>9.2</td>
</tr>
<tr>
<td>Stock Variations</td>
<td>0.4</td>
</tr>
<tr>
<td>Net Export Needs</td>
<td>1.3</td>
</tr>
</tbody>
</table>

58.3

It is necessary to dwell a moment on this development in order to emphasize how far the increase in production goes back in the past. Outsiders may be too easily inclined to view the agricultural policy as a protectionist instrument which engenders fresh difficulties. On the contrary, so far as the authorities of the EEC are concerned, the gradual organization of markets should enable them to control economic phenomena more easily and to promote a more balanced development and one better adapted to needs.

2. The prospects in 1970

Since 1958 the rapid rise in production in Germany, Belgium and France has further improved the rate of self-supplying of the EEC and increased its net export possibilities.

The annual yield in quintals per cow could rise from an average of 26.4 in 1958 to 31-32 quintals for 1970 (+19 per cent), which would lead to a production surplus of 10.9 million tons of milk and an overall production in 1970 of 69 million tons.

In order to appreciate the prospects for overall increase in production during this period, thought should also be given to the growth of the dairy cow population in the EEC:

- with a constant number of cows the increase in milk production would be tied to the increase in yield and be limited to 69 million tons;

- with an increasing number of cows, the Community's dairy output would rise by 35 per cent, that is 20.5 million tons, and thus reach 78.7 million tons of milk in 1970.
II. Probable trends in consumption of dairy products in the EEC from 1958 to 1970

1. The increase in overall consumption will certainly be smaller than the rise in production

(1) The gap between consumption and production is in danger of widening further over the next few years.

In two member States, the Netherlands and Italy, a 40 per cent rise in consumption of dairy products is likely.

The increase for the Community as a whole, expressed in terms of milk, could amount to 12.1 million tons in 1970 over 1958, (+ 25 per cent).

The rise in cheese consumption in the Community would be 400,000 tons, and butter 200,000 tons.

Thus with an increase in dairy production ranging between 19 and 35 per cent, depending whether or not the number of cows remains constant, the rise in consumption would not go beyond 25 per cent. A substantial reduction in the quantity of milk used for animal feed is also to be expected.

Under these conditions the estimate of 1,700,000 tons of surplus milk in 1958 could reach a maximum of 2.1 million tons in 1970 with a constant number of cows and a maximum of 8.6 million tons if the number of cows were to rise from 22 million head in 1958 to 25 million head in 1970.

These are the most pessimistic figures, assuming only a small rise in available consumer income in the Community during the reference period. In actual fact, the estimate generally favoured for the next few years is only 2.5 million tons of surplus.

The Community authorities are all the more concerned over this estimate of 2.5 million tons of surplus because they intend to be rather lenient with certain sources of imports.

EEC imports from third countries, in thousands of tons, were the following for butter and cheese from 1958 to 1960:

<table>
<thead>
<tr>
<th></th>
<th>1958</th>
<th>1959</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>butter</td>
<td>20</td>
<td>41</td>
<td>27</td>
</tr>
<tr>
<td>cheese</td>
<td>68</td>
<td>73</td>
<td>66</td>
</tr>
</tbody>
</table>
Imports from third countries for 1960 were the following (million US$):

- cheese 64
- butter 38
- condensed or powdered milk 13

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Incidentally, intra-Community trade over the same year amounted to $112 million.

2. The fight against imbalance between supply and demand in the dairy products market in the EEC

The EEC does not intend to allow situations of imbalance to develop. The range of measures which could be applied by the Community is wide, and resort to one or more of the steps listed below would depend on circumstances.

(a) The measures to stimulate consumption are also diversified:

(1) Cuts in consumer prices for butter and cheese: it is estimated that a 10 per cent drop in prices could lead to an increase in consumption of about 1.5 to 1.7 million tons of milk, or the equivalent of 70,000 to 80,000 tons of butter.

(2) Raising the fat content of household milk: a 0.2 per cent rise would reduce surpluses by approximately 1 million tons of milk.

(3) Establishment of price differentials by products in order to take advantage of the differences in price- and income-elasticity of products; thus, prices of milk for direct consumption would remain high in view of the inelasticity of demand, while prices of butter and cheese would be varied by maintaining them at a rather low level.

(4) Finally, further amounts could be disposed of under welfare programmes for the benefit of hospital patients and persons with low incomes.

(b) Measures designed to keep dairy production within reasonable limits:

(1) Introduction of quality bonuses on milk.

(2) Change of the milk price/meat price ratio so as to encourage meat production.
(3) Stabilization of the number of cows at the 1958 level, which would lead to a decrease in the present livestock herd which rose from 22 million head in 1958 to 22.9 million head in 1961.

(4) Encouragement of slaughter of young animals, priority being given to meat production over milk production.

c) **Drastic measures designed to avoid the possible formation of structural surpluses**

The EEC recognizes the existence of a danger of permanent overproduction and does not wish to bear the exaggerated expense of assisting exports to foreign markets which are already becoming saturated.

It intends to make a distinction between the support which EEC producers can legitimately expect, and a policy which would lead to a disproportionate increase in existing production.

Among the possible measures to fight against surpluses, the following should be mentioned:

- quantitative limitation of dairy production;
- granting of welfare subsidies, independent of production, to producers in difficulty who would be led to curtail their previous activity.

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III. **Advisibility, in order to overcome difficulties common to the EEC and other producing countries, of envisaging concerted international action in the form of a world agreement**

1. **Need for concerted international action**

In the first instance, it is a matter for the authorities as well as for producers in each country to remedy the difficulties encountered on their markets. The EEC for its part, under its common agricultural policy for dairy products, intends to tackle all the problems arising from production and consumption in this sector.

The Community is very much concerned about the price relations between products deriving from each other, and between substitutable products.
A good number of producing countries are faced with difficulties comparable to those of the EEC. Technical advances have often increased agricultural difficulties more than they have overcome them. Thus, over the past few years some countries have considerably increased their stocks of butter and cheese.

The scope of the difficulties is such and the interdependence so obvious that henceforth it is impossible to settle these problems without international collaboration and multilateral action.

It would be advisable to:

- achieve a new production/consumption equilibrium;
- open up new markets and develop existing ones;
- organize the export of surpluses and perhaps their financing.

2. **Search for new formulas**

The solutions applied in the past were limited in scope:

- either by the number of participants: e.g., the agreement on powdered milk, without the participation of certain large producing or importing countries;
- or by the techniques which were applied: e.g., minimum-price agreements or voluntary limiting of supplies by exporters.

We are not questioning the value of these agreements, but is it not the task of the Pilot Group to seek the means of improving them?

It is not a matter at this juncture of committing governments but only of putting forward ideas, discussing them, and dropping them if necessary. This is the interest of the Pilot Group which, for the EEC, could not in any way be considered a negotiating group.

We are thus led to consider the possible scope of a world agreement in the dairy products sector. Should it be confined to this or that product in particular, or, on the contrary should it cover the largest number of products possible having regard to the close links which bind them.

Likewise, it appears necessary in any new agreement to go beyond the essentially commercial aspects to which earlier agreements were confined.
One particularly interesting task for the Pilot Group would be to define new formulas for international co-operation adapted to the products and the peculiar situation of agriculture.

The EEC is more and more inclined to think that the time has come to examine national and regional agricultural policies side by side, to take on commitments regarding these policies and even to give up part of the traditional freedom of action in the search for solutions defined and implemented jointly at world level.

CONCLUSIONS

In view of the fact that they are based on projections, it is obvious that the figures indicated for the European Economic Community only represent forecasts; the hypotheses themselves have not as yet all been accepted by the member States.

There is no doubt that the best laid plans can be upset by technical progress, the rate of increase in incomes, the movement of prices of food and industrial products, the internal as well as the international economic situation, not to mention reactions linked to ways of thinking.

This is not sufficient reason for abandoning projection studies of national markets and the world market. On the contrary, however, it increases the need to resort to global solutions within as wide a geographical framework as possible so that any conflicts may yield to a recognition of the common interests.