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THE E.E.C. MILK MARKET
AND
MILK POLICY

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The advantages of a strong university establishment, providing an impartial forum for the exchange of information and ideas

Ian G. Reid
Director

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CENTRE FOR EUROPEAN AGRICULTURAL STUDIES

THE EEC MILK MARKET AND MILK POLICY

**Papers presented at a Seminar at the CEAS
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FOREWORD

It is generally agreed that the question of milk supplies and prices is the most urgent and the most intractable aspect of CAP. For years many intelligent, experienced and wise people have grappled with this problem, and in doing so it is difficult for them not to become so involved in the detail as to lose sight of the entirety.

Much effort has been put into the analysis of national sectors and into assessing the impact of Community measures upon them. There has been much less independent effort put into the assessment of the outcome of those measures on an overall Community basis. The Commission therefore thought the time was right to bring together a small group comprising those in the Commission most closely involved in the dairy sector, reinforced by a few experts from outside to look anew at the problem. To this end, the Commission asked the Centre for European Agricultural Studies to organise a closed seminar to be held 27/29 October 1977 at Wye.

The papers prepared for this seminar are presented without a record of the discussion which they generated. They can give only some ideas and information upon a problem which is highly complex and for whose solution multifarious policies and instruments have been suggested over the past years.

It has been said many times, but it is worth repeating, that the milk surplus is the symptom of a social problem — rural poverty. If true, then social rather than agricultural policies and instruments must play a much greater part in the solution than has happened up till now. But the aim of these policies must not be the maintenance of employment for employment's sake. The giving of employment to those traditionally employed in an industry, some of whom are now producing at too high a cost products which are no longer wanted by the market, is nowadays a phenomenon not exclusive to agriculture. We can see the same dilemma in certain sectors of the European shipbuilding, aircraft, car, chemical and steel industries. The current password given in all these situations is to maintain employment, since the alternative of unemployment is politically dangerous as well as humanly degrading. The general economic stagnation prolongs and exacerbates the agricultural problem.

The narrow solution to the surplus in milk must surely lie in making the product less attractive to the producer and more attractive to the consumer by the use of, for instance, a lower price for milk and milk products in real terms, a reduction in incentives to invest in excessive productive capacity, the taxing of inputs whether feedingstuffs or capital equipment, the institution of saleable production quotas, the taxing of output by co-responsibility levies and the spending of such levies on promotion in both commercial and non-commercial, external and internal markets.

Many of these ideas have been put into practice. A successful outcome has so far eluded us for one main reason — the lack of political will and good judgement first in the application of the suggested policies and second in conjoining them with other policies such as regional, social, employment and investment, so that their total impact is effective.

The Centre for European Agricultural Studies gratefully acknowledges the opportunity it has been given to contribute to the discussion of this vital subject and thereby to further the exchange of information and the development of ideas about the opportunities as well as the problems facing European agriculture.

November 1977

Ian G. Reid,
Director.

THE EUROPEAN MILK PROBLEM

Denis Bergmann and Denis Hairy

This paper is rather general and covers several aspects of the milk problem. It is of an introductory nature since it is due to be presented at the first session of the Seminar. It will thus dwell on certain points which will certainly be treated in more detail in other papers. We hope their authors will forgive our trespassing. Since almost all figures come from official reports and statistics, we have not given detailed references of those sources¹.

I. INTRODUCTION

The market for milk and milk products is probably the one which causes the most worries to the persons in charge of national or community agricultural policies. Their costs are more readily measurable than worries. Since 1970, 36 to 39% of the FEOGA guarantee section expenditures were for the milk sector (except in 1972 when they fell to 25%). And the situation is not improving. So a new effort to find solutions is justified.

The magnitude of the milk surpluses should not be over-rated, even though public opinion is impressed by periodic occurrences of butter or milk powder mountains. When, instead of looking at a few commodities where the imbalances converge, one appraises the whole European market, it appears that surpluses are quite small. Maybe a wiser management could even have reduced them.

For the Nine and if one accepts the usual — though debatable — definition which measures surpluses as the sum of net exports and net additions to stocks, it appears that surpluses were the following percentages of total production:—

1973	:	2.4%
1974	:	0 %
1975	:	2.2%

This is computed in whole milk since the concept of a surplus breaks down when applied to by-products.

On the basis of a total production of 100 million tonnes, a surplus of this size represents the whole milk equivalent of 110- to 120,000t. of butter. In recent years the EEC imported from non-member countries more than 130,000t. — mostly from New Zealand².

The probable increase of this surplus in coming years is more worrying and will be dealt with later. Reading some over-optimistic forecasts on the milk market published twenty years ago by international organisations should lead to caution in these matters.

In spite of the fact that the magnitude of the milk surplus is not great, the problems of the sector are very real and complex. They would have been solved long ago if they had been simple!

The aim of this introductory paper is to review the main constraints bearing on the milk economy of the Nine, to bring to light the major contradictions and conflicts which appear to divide the various groups and regions concerned and to appraise the possibilities and limitations of the policies which can be contemplated.

Our main thesis is that low price policies, however justified in view of the supply-demand situation, are politically unacceptable on account of the importance of milk in the receipts of a very large number of small or medium-sized farms, whose present incomes are indifferent. Such a low price policy would be a heavy blow for many medium-sized farms which, during

1. This English version of the paper is an adaptation not a translation.

2. Of course this situation of near self-sufficiency for the whole of the EEC covers ample differences between individual member countries. The UK imports half its needs. France exports 9 to 10% of its production. The Netherlands more than half.

the past ten years, went through an extensive process of technical progress and investments which involved heavy indebtedness. It seems unjustified to penalise those farms by submitting them to low prices which would jeopardize their financial consolidation. It would hardly be consistent with the current productivistic farm development policies. These can of course be questioned. It is a fact, however, that they have been actively furthered, over the past 10 to 20 years, both by government and by the milk industry.

At the same time, the general economic situation and, particularly, the level of unemployment, hinder any extensive policy of structural transformation — in spite of the fact that it remains one of the few methods bringing an improvement in producers' incomes without requiring increases in real prices.

Several other contradictions cumulate with the major one just explained. Most milk industries have experienced low profit rates in recent years. There is thus little hope of obtaining significant cost reductions in haulage or processing costs through increased concentration of factories. Grave conflicts between regions exist. Those with favourable conditions and a good potential for low-cost production wish to expand their share of the market. High-cost mountain areas have few alternatives to dairying and run the risk of extensive desertification and social disruption if they lose their share of the market. And the prospects for expanding this market, either internally or by exports, are not good.

II. BACKGROUND DATA

The dairy cow is the backbone of North-West Europe's agriculture

Roughly half the farms in the Nine — nearly two and a half million — keep dairy cows. In certain countries (the Netherlands) and regions (Brittany) the proportion is more than 60%. Since farms with one to four cows are still numerous, it would be more significant to study the number of farms where milk production is the leading activity (the "technico-economic orientation" in Brussels jargon). We have not found homogeneous EEC data on this point and have therefore used data from the Community Farm Accounting network. Of the 3.1 million farms taken into consideration by the network (roughly full-time farms), 800,000 were cattle oriented. 300,000 of those farmed between 20 and 50 ha. which means that they are far from having a negligible economic weight.

In France, for 1975, 800,000 farms out of 1.4 million kept dairy cows, 600,000 of them delivered milk to industry. These farms have rather low incomes even though they improved in relative terms around 1972–73. According to the Community Accounting Network, the cattle oriented farms in the 20–50 ha. size class gave the following labour returns per labour unit (in 1975):—

France	4,800 units of account;
Netherlands	11,500 units of account.

The numbers of these farms has been decreasing fairly rapidly for the 1965–75 period. For the United Kingdom, Netherlands and France, 700,000 cattle-holding farms disappeared during that period, 600,000 of them in France. This may well be slowed down by the present economic situation and the rise in unemployment.

Lastly, it is essential to recall that, on many of those farms where milk (and sales of cattle which are in a way a by-product of milk) often provides more than 80% of the cash receipts, there are few possibilities of substituting other activities to milk. The dairy enterprise is often the only form of intensification suited to the land and labour resources available. These structural factors of the dairy specialisations may be supplemented by more technical constraints. In many regions, heavy soils, slope and climate will combine to prohibit or jeopardize ploughing, thus inducing grass growing and thence raising of ruminants. To this we will return later.

Those numerous dairy farms have gone through an extensive modernisation process

In most European countries, systematic policies aimed at specialising and intensifying milk production have been practised. They were based on the use of the advisory system, on subsidies, particularly for buildings, and on regulations, for instance of artificial insemination. To a large extent, these government policies were well fitted to the openly stated needs and requirements of the processing industry, particularly with regard to quality standards, density of first-stage transport and reductions of fluctuations in production.

There was also an increase in unit forage production and thence stocking rates. Statistical data on this point seem sketchy.

Genetic improvement of the herds, forage intensification and increased specialisation of the farms go hand-in-hand with their concentration — measured by a regular rise in the average number of cows per farm. In the U.K., 65% of the cows are now in herds of 50 and more cows. In the Netherlands, 22% of the cows are in that group and 55% in the 30 cows and more group. In France however, in 1974, only 17% of the dairy cows were in that last group. The importance of the very small herds, which are still numerous, is falling and 60% of the total dairy cow herd is in herds of 10 to 30 cows.

Disparities in technical levels, natural conditions and structures remain considerable

The last paragraph provides figures on disparities in average herd sizes.

There are also great differences in the ways in which those cows are fed. In the U.K. and the Netherlands concentrated feed consumption per cow exceeds 1.2 t. per year against 0.2 t. in France. In eastern France (Alps, Jura, Vosges) or in Bavaria, at least six months of costly fodder reserves are needed for winter feeding. In South-western England, Brittany and South-western France three months are enough. Stocking rates (number of dairy cows per hectare in grass) were 1.7 in the Netherlands but only 0.7 in France.

Milk yields per dairy cow reach 4,600 kg. in the Netherlands and exceed the 4,000 kg. mark in Germany, Denmark and the U.K. They are below 3,000 kg. in Italy and Ireland.

This is certainly linked to the intellectual environment of farms (advisors, milk yield, testing).

In some regions at least and particularly in France and Ireland, there is a large potential for improvement waiting to be developed. It concerns forage production, as well as herd improvement and labour productivity, particularly as a consequence of increases in the size of herds. Admittedly, in many parts of France's western half, there are now a fair number of dairy farms which can be considered as competitive, both with regard to technical level and to size. Maybe we can venture to state that, in the best regions like Normandy, they might account for one-third of the herd. Should their share come up to two-thirds as in Friesland, the national averages would get a big boost.

One important feature of those dormant productivity reserves is that they deprive of almost all their short-term effectiveness the programmes or campaigns aimed at controlling supply by hastening the elimination of so-called marginal producers (by pressure on prices or structural policies) or by encouraging their shift towards other commodities.

This is why dairy cow numbers remained stable at the EEC level (and increased in France and the Netherlands) in spite of community programmes aimed at increasing the culling of cows and shifts to beef.

Another example of these hidden reserves is given by the following rough computation: if French milk deliveries were to come from 300,000 farms (instead of the present 600,000) with 20 cows on the average producing 4000 kg., total production would be about 24 million t. or roughly 17% more than the current level.