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Milk and dairy products situation

Report

Committee on Agriculture and Rural Development

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A. I. Draft Recommendation

The Assembly,

Having considered the Report of its Committee on Agriculture on the production and marketing of milk and dairy products ;

Taking note of the valuable work of the Ministerial Committee on Agriculture and Food of O.E.E.C. and of the recent improvement in the market of dairy products ;

Considering nevertheless that, on account of long-term production trends, this improvement is likely to be of a temporary character,

Recommends that the Committee of Ministers of the Council of Europe and the Council of O.E.E.C. :

1. should continue the studies undertaken with a view to harmonising, co-ordinating and stabilising the national markets of dairy products and concluding multilateral long-term agreements designed to stabilise prices and expand the volume of trade ;
2. should prepare a programme of action which could be implemented immediately in case of crisis in order to re-establish the normal situation of the market ;
3. should, as a matter of long-term policy, urge the Governments to ensure that the principles laid down in the recommendations made from time to time by the Ministerial Committee on Agriculture and Food should really be put into effect ;
4. should invite the European Economic Community, when working out its policy for milk and milk products, to take account of the interdependence of the dairy economies of all the members of O.E.E.C.

B. II. Explanatory Memorandum by M. STENDEBACH

1.

Dairy farming is one of the largest sectors of European agriculture.

In certain West European countries milk and dairy products accounted for roughly the following percentages of gross agricultural production in 1955 ¹:

Austria - 22 %

Belgium - 24 %

Denmark - 27 %

France - 19 %

Federal Republic of Germany - 25 %

Ireland - 22 %

Italy - 12 %

Netherlands - 26 %

Norway - 40 %

Sweden - 40 %

Switzerland - 38 %

United Kingdom - 27 %

With only few exceptions, national dairy policies aim at improving farmers' incomes through direct and indirect protective measures. This has led to an increase in domestic supplies in post-war years proportionately greater than the increase in consumption. Thus, total cow milk production in OEEC countries combined attained a level of 90 million tons in 1957-58, representing an increase of 24 % over pre-war.

The butter production in the same period rose by about 20 % in OEEC countries combined (and in the EEC area by about 32 %). At the same time per capita butter consumption in the OEEC area as a whole, although slowly recovering after the war was on the average 13 % below pre-war in the years 1953-56 but reached a level of about 11 % above pre-war in 1957-58. It may be recalled that the population of Western Europe since pre-war increased by 19 %.

In the first half of 1958 this development led to a crisis which considerably disorganised home markets and foreign trade alike. The crisis was precipitated since, in addition to slackening import demand in some of the traditional importing countries, in particular Germany and Italy, owing largely to increased domestic production, several other countries which hitherto had no surplus, or only small surpluses of butter to put on the market, suddenly were forced to export considerable quantities (Austria, Finland, France, Ireland, Norway and Sweden). The immediate causes which led to the exportable supplies in these countries were rising production and partly also decreasing consumption.

As a result prices declined sharply ; thus the international price level (London Provision Exchange) as on 1st May 1958, was only a little over half the 1954 average price and only about three-quarters of the 1957 average price, which in itself was relatively low.

A sign of how alarming the situation had become is that these prices were considered to be below costs of production in countries generally recognised as above average in productivity. In Great Britain, for instance, a pound of butter was sold to the consumer at 5d. below the price of production in New Zealand.

Commenting on the situation, the Chairman of the New Zealand Milk Board said "We can cope with fair competition, but we cannot compete with European countries which sell butter at a high price to their home market, and dump thousands of tons on the British Market below cost price." In consequence, New Zealand and Australia decided to launch a campaign in various European countries to encourage butter consumption.

1. Source : Output and expenses of Agriculture in some European countries. ECE/FAO, Geneva, 1958.

During the first two months of 1958, Finland exported nearly three million kilos of butter to Great Britain. These exports brought in 500 million Finnish marks, but at the same time export subsidies amounted to 850 million Finnish marks.

In March 1958, the Irish Government stated that losses in 1956 on butter exports amounted to £1.14 million and were likely to reach £5.52 million in 1957.

A very important factor was Germany's decision not to import butter up to the month of June 1958, home production having reached a record level. Thus imports of butter in 1957-58 amounted to only 27,700 MT., as compared with 45,000 MT in 1956-57.

In order to reduce stocks the Netherlands exported butter at prices below " minimum delivery prices " with the help of aids to exports.

The situation was especially critical in Denmark. In order to encourage home consumption, a vast publicity campaign was launched and the domestic price of butter reduced. A kilo of ordinary butter cost no more than 300 francs at retail. In addition, frozen butter was put on the market at 240 francs per kilo. Stocks were estimated at 16,000 tons, a considerable amount in view of the consumption possibilities of the world market. However, Germany was obliged to accept from Denmark 12,000 tons of butter in 1958, in accordance with its commercial agreement with that country.

In Italy, a minimum price for butter of 650 lire per kilo was fixed on the Milan market from 1st May 1958 (before it was 750 lire) and imports were temporarily suspended.

Meanwhile, in Austria, milk surpluses were increasing. It was estimated that in 1958 milk production would increase by about 140,000 tons to reach a total of 2.75 million tons.

These signs pointed to the need of discouraging, to some extent at least, milk and butter production in high-cost countries, as the decline of demand in the international butter market was largely caused by the rapid development of subsidised production in those countries.

In April 1958 an International Conference of Milk Producers was held, attended by 10 countries : Australia, Denmark, Finland, France, Luxembourg, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom.

The Conference first established the main causes of the crisis, which were :

1. increase in world butter production, due in part to better yield from dairy cows and a higher fat content of milk ;
2. increase in production in certain importing countries, with consequent reduction in imports ;
3. the fact that the United Kingdom is virtually the only country to import butter without restrictions on quantity and at low import duty ;
4. the fact that consumption of margarine has increased relatively more than butter in most countries.

The Conference then recommended a number of measures to improve market conditions ;

1. encourage the consumption of butter in all producing countries by reducing the difference between the prices of butter and margarine ;
2. encourage the consumption of milk and increase its fat content ;
3. promote the consumption of milk and dairy products in schools and other institutions.

In order to remedy the situation several countries exporting dairy products took action.

In Holland, in order to help dispose of stocks of butter and cheese, the Government decided to reduce the so-called " delivery " prices of butter and of whole milk cheese (Gouda and Edam cheese). The guaranteed price of milk at production remained unchanged, but the Dutch Government attempted to stimulate home consumption of unsubsidised pasteurised milk with a higher fat content (standardised milk is subsidised).

In Denmark the Government decided to raise the fat content of household milk and whipped cream and, simultaneously, to reduce their prices.

In Sweden, the Agricultural Organisations proposed :

an increase in the price of margarine ;

a reduction on the price of butter ;

the sale of butter at reduced prices to institutions of a social character ;

a reduction in three years of about 200,000 in the herd of dairy cows.

It was decided to reduce the butter price for domestic sales by 2 Kr. per kilo, of which 3/4 were borne by the farmers and 1/4 by the Government. In addition, the Government subsidised sales to public institutions.

2. Action taken by the Committee of Deputies of the Ministerial Committee for Food and Agriculture and by the Council of O. E. E. C.

On the international governmental level, the butter crisis was first examined on 15th March 1958 and again on 17th and 18th April 1958 by the Committee of Deputies of the Ministerial Committee for Food and Agriculture of the O.E.E.C.

The Deputies, after noting that the present surplus, due to the mild winter and abundance of fodder, had resulted in the closure of most European markets, a fall in prices on the London market and an increase in exportable supplies, expressed the opinion that export subsidies tended to aggravate the situation.

In July 1958 the OEEC Council adopted the following Recommendation :

1. to promote increased consumption of milk and dairy products by such measures as propaganda, free or cheap distribution ;
2. to raise butter consumption, in particular, especially by reducing the retail price and charging special prices for refrigerated butter ;
3. as far as the exporting countries are concerned, to restrict as far as possible the supply of subsidised butter on the international market, especially by taking steps to dispose on their home markets of all or part of the surplus which threatens to flood the market. To this end, no new subsidies should be granted for the export of butter and the existing subsidies should be cut ;
4. as far as importing countries which protect their markets are concerned, to bear in mind the effects which their import restrictions have on prices on the markets which remain open, to refrain from reinforcing such restrictions and to relax them as early as possible, with a view to the progressive improvement and restoration of the trade situation.

The Committee of Deputies considered, in view of the present situation and outlook of the dairy products market, that Governments should be urged to reconsider their long term dairy farming policy, bearing in mind the need :

to avoid isolating production from real market conditions ;

to discourage costly production ;

to take into account market trends and the increased competition between butter and margarine.

At their meeting in September 1958, the Deputies found that the situation of the butter market was not so critical as in the spring. Thus, the price of Danish butter in London had risen by 30 % without however reaching the 1957 level. The market in cheese and other dairy products also improved. Butter consumption often increased with reduction in price². Prospects were therefore better, but the situation remained serious and should be watched.

The Deputies then considered it necessary :

- a. to keep the situation of the dairy produce market constantly under review ;
- b. to work out means of taking rapid action if the international situation appeared threatening ;
- c. to undertake, immediately, a more extensive study of the dairy economy with a view to laying down guiding principles for measures to be taken to remedy the imbalance between production and consumption.

2. Experience in the Netherlands, Denmark and Sweden showed that a reduction in butter prices of about 30 % was followed by an increase in consumption of 40 to 55 %.

In November 1958 another Conference of European Milk Producers which met at Cremona advocated cutting down as much as possible costs of production, processing and marketing so that butter and other dairy products might be offered to consumers at reasonable prices.

At the same time, the Committee of Deputies of the Ministerial Committee for Food and Agriculture of the O. E. E. C. again found that, though the butter market situation had eased, the likelihood of high milk production remained, and the possibility of a new crisis in dairy products was by no means averted.

Indeed, milk production continues to increase, not because of bigger herds, but because of greater yields per cow. Further, owing to increases in fat content the quantity of standardised dairy milk and of butter which can be produced from a given quantity of raw milk tends to be greater.

If the present production trends are maintained, it is estimated that total milk production in 1965 will be 27 % more than in 1955. It is also estimated that consumption of dairy products, other than butter, will be 9 % above the 1955 level. If butter is to account for the difference, consumption of butter per head, therefore, must be increased by more than 20 % as compared with 1955.

These estimates will probably be affected by the fact that a certain number of countries take steps directly or indirectly to adjust milk production to actual demand.

Measures applied or contemplated include : reducing the number of cows, inter alia by campaigns against bovine tuberculosis, adjusting prices of dairy products, raising the fat content of dairy products and restricting the use of concentrated feeding stuffs.

The action taken by various Governments to limit the effects of the butter crisis has done much to restore the situation. The measures taken included :

Reduced retail prices on butter, particularly in some cases, cold store butter (to bring butter and margarine prices nearer).

Publicity campaigns for increased consumption of milk and dairy products (notably butter).

Culling of herds ; in a number of cases related to the fight against TB and other contagious bovine diseases.

Increased fat content of liquid milk and butter (and cheese).

Efforts to switch over from butter production to production of cheese and other dairy products.

Increased levies on feeding stuffs especially those imported.

Obligatory or recommended " taking back " of butter by farmers, in some cases at reduced prices.

Increased use of butter and milk in various social schemes.

Blending of butter with margarine in some cases.

In the first half of 1959, Germany and Norway as well, as Austria and Italy, were the only countries not to show a decrease in butter production as compared with the first half of 1958.

In Denmark, stocks of butter have been exhausted, sales to Great Britain in the first quarter of 1959 were 12 % lower than a year before and prices have recovered.

In Great Britain, the butter market situation has improved; nevertheless import quotas vis-a-vis " marginal " countries had to be enforced for a time.

In Holland, as a result of a reduction in the price of butter and higher home consumption, stocks have been reduced and are now practically nil and the general improvement in the European market has even caused some firmness in prices which appears to be maintained.

Sweden switched over from being an exporter to now being an importer.

The Committee of Deputies of the Ministerial Committee for Food and Agriculture of the O. E. E. C. has decided to keep the situation of the dairy produce market constantly under review. Moreover, if there is any risk of the international market deteriorating, the Committee will hold an emergency meeting.

The Deputies are also to lay down guiding principles for measures to be taken to remedy the imbalance between production and consumption. These long-term problems will be followed up in conjunction with other international organisations concerned.

TABLE 1 - Total milk production 1 in OEEC member countries

	Pre-war 1 000 T	1950/1951 1 000 T	1957/1958 1 000 T	in % of Pre-war
Austria	2,393	2,179	2,756	115
BLEU	3,229	3,415	(3,963)	(123)
Denmark	5,270	5,395	5,265	100
France	15,038	16,000	20,600	137
Germany F. R.	15,000	14,610	17,770	118
Greece	191	162	312	163
Iceland	54	77	97	180
Ireland	2,308	2,407	2,800	121
Italy	5,907	6,803	9,002	152
Netherlands	5,146	5,665	6,135	119
Norway	1,532	1,662	1,751	115
Portugal ³	109	161	206	189
Sweden	4,596	4,833	3,416	74
Switzerland	2,591	2,563	2,906	112
Turkey ⁴	1,220	1,382	1,300	106
United Kingdom	8,324	10,137	12,002	144
Total O. E. E. C. ⁵	72,908	77,451	90,009	124
EEC countries combined	44,320	46,493	57,470	130

() Preliminary figures. Source : OEEC statistics.

TABLE 2 - Indices of production of butter and cheese in 1957-1958 (pre-war = 100)

	Butter	Cheese
Austria	160	78
BLEU	(139)	(155)
Denmark	98	312
France	162	138
Germany F. R.	129	(183)
Ireland	83	115
Italy	116	128
Netherlands	91	145
Norway	57	161
Sweden	98	147
Switzerland	121	117
U. K.	102	256
OEEC countries except Greece, Iceland Portugal and Turkey	(120)	(148)
EEC countries combined	(132)	(145)

() Preliminary figures. Source : OEEC statistics.

TABLE 3 - Liquid milk consumption in some OEEC Member States in kgs, per head per year

	pre-war kg.	1950/1951 kg.	1957/1958 kg.	in % of pre-war
Austria	186	166	168	90

3. Excluding milk used for feed.

4. Excluding milk used for feed.

5. Excluding milk used for feed in Portugal and Turkey.

	pre-war kg.	1950/1951 kg.	1957/1958 kg.	in % of pre-war
BLEU	80	102	(97)	(121)
Denmark	167	170	164	98
France	86	92	91	106
Germany F. R.	139	121	115	83
Ireland	147	190	175	119
Italy	37	48	58	157
Netherlands	146	196	166	114
Norway	176	247	228	130
Sweden	250	237	195	78
Switzerland	244	241	205	84
United Kingdom	107	158	152	142

() Preliminary figures. Source : OEEC statistics.

TABLE 4 - Consumption of butter and margarine in some OEEC Member States, in kgs. per head, per year

	Butter (product weight)		Margarine	
	Pre-war kg.	1957/1958 kg.	Pre-war kg.	1957/1958
Austria	3.7	4.6	1.5	4.0
BLEU	9.0 ⁶	10.8 ⁷	6.7	10.6
Denmark	8.7	12.8	(20.8)	(19.9)
France	5.3	8.0	0.8	2.1
Germany F. R.	8.1	7.4	6.1	12.1
Ireland	13.2	20.4	1.1	2.8
Italy	1.4	1.7	?	?
Netherlands	6.2	3.8	6.8	19.5
Norway	7.6	3.2	18.5	24.1
Sweden	10.7	7.6	9.7	16.5
Switzerland	6.8	6.5	u. a	2.1
U. K.	11.2	8.4	3.9	6.8

() Preliminary figures. Source : OEEC statistics.

6. Belgium only.

7. Belgium only.