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**M. GUNDELACH : " CRITICISM OF OUR MARKET MANAGEMENT UNJUSTIFIED-
ONE THIRD OF TOTAL COMMUNITY BUTTER CONSUMPTION SUBSIDIZED"**

Speaking to the Agricultural committee of the European Parliament in Brussels today, Mr. Gundelach rejected criticism of the Commission's market management, especially in the dairy sector. Notwithstanding rising milk production in 1980 (the equivalent of an extra 100.000 tonnes of butter and an extra 200.000 tonnes of skimmed milk powder) the unit cost of disposing of surpluses was not rising. The Commission had had the courage, despite criticism, to carry through consistently over the last year or two a management policy which had now resulted in a reduction of very high intervention stocks to almost working levels. Compared with a year ago public stocks of butter were 43 % lower and of skimmed milk powder 27 % lower, thus enabling the Commission to strengthen world prices and to reduce export refunds. This in turn had made it possible to abolish or to reduce the cost of other aid schemes, Mr. Gundelach said. Compared to its rate at the beginning of the 1979/80 marketing year, the export refund for skimmed milk powder was 48 % lower, for whole milk powder 32 % lower and for butter 25 % lower. The aid for casein had been reduced by 28 %, for skimmed milk powder for calves by 3 % and for skimmed milk powder for pigs by 100 %. "With a record like this, I am not willing to accept any criticism of how we manage the market", said Mr. Gundelach.

Commenting on persistent rumours concerning new subsidized sales of Community butter to the URSS, Mr. Gundelach reminded the Committee of the total suspension of prefixed butter export refunds for this destination. "We have not allowed any new prefixed export refunds for butter exports to the Soviet Union in 1981, nor will we for the time being". He strongly objected to the link in public debate between butter exports to the USSR and the absence of a Christmas butter scheme this year: "Since no new prefixed export refunds have been allowed that link is unfair". Mr. Gundelach said that export was still by far the cheapest means of disposing of butter for the Community budget. Subsidized Christmas butter this year would have demanded a large supplementary budget which was politically out of the question. "You cannot have it both ways: we cannot save money as we are asked to do and finance Christmas butter". Mr. Gundelach stressed moreover that the Community was continuing to subsidize very substantial quantities of butter for internal consumption: 700.000 tonnes or more than one third of total Community consumption had been subsidized in this way last year. This was twice the quantity of total Community butter exports.

Annex : Background note on butter subsidies and market management

Annexe

Subsidies in favour of Community consumers

1. The following subsidy schemes are in operation:

a) a general butter subsidy from which all consumers in the Community can benefit if the member state decides to take it up. Four member states (Denmark, Ireland, Luxembourg and United Kingdom) are operating general Community butter subsidies for their consumers. The other member states (Germany, France, Italy, Belgium and Netherlands) have decided not to do so. The money made available from Community funds is up to 50 ECU/100 kg (1,39 DM per kg) and the national contribution is one quarter of the Community contribution. In the United Kingdom as a special measure the maximum Community contribution is lower - up to 45,94 ECU/100 kg (28,4 p per kg) - but, as there is no national contribution, the total effect is comparable.

The quantity of butter covered by these schemes in 1979 was 374 000 tonnes.

b) a social butter subsidy. This is available from the benefit of certain disadvantaged consumers, provided that the member state decides to take it up. Only 1 member state (Ireland) is using this subsidy. The money available from Community funds is up to 60 ECU/100 kg (1,67 DM per kg); 5 000 tonnes of butter was covered by this scheme in 1979.

- c) subsidies for the use of butter in food manufacture. These are important schemes which reduce the cost of a wide range of food products such as cakes and biscuits. They apply throughout the Community. The current Community aid is 192 ECU/100 kg (5,34 DM per kg).

The quantity of butter covered by these schemes in 1979 was 83 000 tonnes. It will be substantially higher in 1980.

- d) subsidies for the use of butterfat in ice-cream. The current rate of Community subsidy, applicable throughout the Community, is 120 ECU/100 kg (3,34 DM per kg).

The quantity of butterfat covered by this scheme in 1979 was 33 000 tonnes in 1979. It is expected that it will be slightly higher in 1980.

- e) subsidised butter for charities and similar bodies. This scheme is available throughout the Community. The current rate of subsidy is 171 ECU/100 kg (4,76 DM per kg). The quantity of butter covered by the scheme in 1979 was 24 000 tonnes.

- f) subsidised butter for the armed forces. This scheme is available throughout the Community. The current rate of subsidy is 171 ECU/100 kg (4,76 DM per kg). The quantity of butter covered by the scheme in 1979 was 9 000 tonnes.

- g) concentrated butter. The scheme is available for all consumers, provided that the member state decides to take it up. This scheme is used nearly exclusively in Germany. The current rate of subsidy is 170,5 ECU/100 kg (4,76 DM per kg). The quantity covered by the

scheme in 1979 was 2 000 tonnes.

h) "Christmas butter". This special sale of butter from public and private stocks was introduced in 1978 and 1979 because of the high level of these stocks (418 000 tonnes on 1 January 1979). It was applicable in 1979 in all member states but subject to certain different conditions. The average rate of subsidy was 90 ECU/100 kg (2,50 DM per kg). The quantity in 1979 was 152 000 tonnes. The Commission has not ruled out such special sales in later years but did not propose this for 1980 because of the substantially lower level of public intervention stocks (currently about 170,000 tonnes) which are now little above working levels and because of its high budgetary cost.

2. Thus the total amount of butter for which there was a subsidy for the Community's own consumers last year was about 700,000 tonnes. This is over 40% of total consumption. Exports in 1979 were about 300,000 tonnes.

Costs

3. The Commission estimates that, for each extra tonne disposed of, the cost to the Community budget is approximately as follows:-

| | <u>ECU/100 kg</u> |
|--|--|
| general butter subsidy | 380 - 660 |
| subsidies for the use of butter in food manufacture and in ice-cream | 220 |
| "Christmas butter" | 450 |
| export | 150 (current refund 100 ECU/100 kg) |

Thus if hypothetically another 300,000 tonnes of butter were not to be exported but were to be diverted into "Christmas butter" sales within the Community, the additional cost would be of the order of 900 million ECU (2,500 mln DM). In practice, a market for such an additional quantity could not be found except at a substantially higher cost to the budget.

4. It appears that the opinion is still widely held that the unit cost of disposing of milk prods, whether for intervention stocks or for the market, is rising. This is totally false. Milk production is rising but the Commission through its management of the milk product market has been very successful in reducing the cost of disposal. By comparison with the situation at the beginning of the 1979/80 marketing year the situation is as follows -

| | ECU/100 kg | | |
|---|--|---|----------------|
| | at beginning of 1979/80 marketing year | on 26 Nov. 1980 (1 January 1980) | Reduction |
| • /butter export refund | 198,9 | 100 150 | - 50% - 25% |
| skimmed milk powder export refund | 76,5 | 40 | - 48% |
| whole milk powder export refund | 113,10 | 77 | - 32% |
| aid for casein | 6,71 | 4,80 | - 28% |
| aid for skimmed milk powder for calves | 55,60 | 54,00 | - 3% |
| aid for skimmed milk powder for pigs and poultry | 92,75 | 0 | -100% |

This has not been achieved at the expense of a build-up in stocks. On the contrary, the public intervention stock of butter is now 43% below its level at this time last year and the public intervention stock of skimmed milk powder is 27% lower.