

NATIONAL MILK PRODUCERS FEDERATION 68TH ANNUAL CONVENTION

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Speaking Notes

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Pleasure to be in San Antonio - reference to Alamo etc.
and have opportunity to speak to such prestigious and influential group.

Whenever speak on EC's CAP - no burst of wild and enthusiastic cheering. Perhaps because of many and striking similarities between EC and US farm policies, or perhaps because of differences.

Similarities:

Don't know whether objectives of US ag policy spelt out in US Constitution. But they are in ours, in Article 39 of

- Treaty :
- to increase productivity through technical progress ;
 - to give the farmer a fair standard a living ;
 - to assure the supply of sufficient food at reasonable prices, and
 - to stabilise markets.

Very similar to US policy aims. Perhaps different machinery for implementation. But strikingly similar results :

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- . Both EC and US production increases that have resulted in quantities beyond capacity of market. NOT the same as too much food in the world (e.g. Ethiopia).
- . Both have highly developed economics.
- . Both belong to roughly same temperate zone.

Thus, many products common to both, including the product that interests you most.

Differences:

Obvious one of geographical size (San Antonio is + 1,300 miles from Washington. If I'd travelled this distance from my old office in Brussels, would have found myself in the middle of the Russian steppes somewhere between Kiev and Karkhov). US 6x larger than EC, but 20% fewer inhabitants. Result : most farms in Europe small or medium sized and farming trends intensive with high yields.

Here, emphasis on bulk crop products (grain & oilseeds : 31% US farm production only 13% EC farm production).

On other hand, in EC on higher value farm products such as livestock and wine = 60% of production. In US 48%.

One of more important livestock products is milk (19% in EC, 12% in US).

One of aims spelt out in Treaty : technical advance and productivity gains has meant output rising more rapidly than consumption - just as it has here - with serious imbalance supply/demand. Milk most glaring example.

This, plus fact running low on cash in spite of fact that total 83 spending on agriculture, an all time record at 15 bio (US 30 bio \$ if PIK included) represents only $\frac{1}{2}$ of one per cent of GDP, led Ministers to very tough decisions last March which represent major shift in CAP direction. But decisions not just for budgetary reasons also aim to streamline European agriculture, fit it to conditions of mid 80's and beyond.

No time for detail but, in summary, Council accepted :

- 1) Principle that agricultural guarantees can no longer be unlimited ;
- 2) Tough price policy, including for first time cuts for several products with increased effort to reduce price gap with EC's major competitors; and
- 3) Effective control of milk production by quotas.

This will require substantial sacrifice from EC farmers (demonstrations in France, U.K., etc.).

To flesh out these three main headings :

1. Guarantees no longer unlimited, or in Eurojargon Guarantee thresholds.

These put strict ceiling on amount of given crop a farmer may produce without him having to contribute towards disposal cost. March decisions extended these thresholds to sunflower seed, durum wheat and raisins. Maintained them for cereals, colza, cotton, tomatoes, sugar and milk.

2. Prices

Prices for 1984/85 adapted to market situation, eg.

sugar : price freeze
 cereals: - 1%
 milk : price freeze.

Overall farm prices were cut by average of 0.5%.

M I L K

This sector with grave supply/demand imbalance had to be at the centre of any reform of the CAP. Situation aggravated by genesis of super cow. In addition, as world's largest milk producer outlays on milk by far highest in EC agriculture budget

Tendency for milk production to rise at significantly greater rate than consumption (internal and export) not a recent phenomenon. Widening production/consumption difference could only be reduced by public intervention, subsidised disposal schemes on internal market (Christmas butter etc.) and increased dependence on export outlets on volatile world market (familiar situation for number of US products). This led to increased budget expenditure - intervention and export refunds.

Earlier measures taken :

- Premiums to producers for cow slaughter or conversion to beef production ;
- 1977 co-responsibility levy
 (first step towards producers assumption of some financial responsibility for surpluses).

But this and other measures whilst generating funds for expanding markets - no discernible impact in curbing relentless upward trend in production.

Forseeable trends for production/consumption led Commission in 1980 to propose super levy on production in excess of defined quantities. Neither this nor similar proposal in 1981 accepted by Council.

1982 Council accepted idea of guarantee threshold for milk. 1982 deliveries exceeded threshold by about 3% and as result 1983 price increase abated by 3%.

But despite this milk production increased by 4% in 1983. Commission therefore obliged to face Council with stark choice either - a cut of $\pm 12\%$ in prices- or introduction of quotas (limit production, but maintain incomes at more reasonable level).

Ministers decided on quotas which would apply for 5 years. They froze the milk price and fixed 1984-85 quotas at 99.4 mio t or 4.2 mio t less than 1983 and 6.6 mio t less than quantity forecast for 1984. Quotas for 1985-86 to 1989-90 have been fixed slightly lower at just over 98 mio t.

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Briefly, main elements of quota system :

- guaranteed total quantities fixed for each Member State ;
- total quantities allocated within Member States on basis of producer and/or purchaser (dairy) ;
- super levy (designed to discourage additional production and where necessary to finance cost disposal) applied to all deliveries in excess of these reference quantities ;
- super levy : (a) at producer level: 75% of target price (i.e. levy of 20.57 Ecu/100Kg (\$158/per m ton) for 1984-85);
- (b) at purchaser (e.g. cooperative) level: 100% of target price (i.e. levy of 25.43 Ecu/100Kg (\$211/per m ton).

In other words, extremely disuasive.

These then briefly were some of the tough decisions taken at end March. But not complete and instant rescue package. More hard decisions required. Milk producers caught it this year. Cereal growers next.

Measures in milk sector biting already :

- For period April-September 1984 (compared April-September 1983):

Milk deliveries - 2.7%
(for Sept. alone - 5.0%)

Butter production - 8%

Powdered milk " -15%

Milk production in Netherlands cut back so sharply that imports are necessary from Federal Republic and Belgium (but this is what CAP is about).

Evident that these measures (already taken plus others to follow) not attempt to shuffle off our problems on to others. Important contribution towards better balance supply/demand on world markets. A path down which we've been urged to go for long enough.

But increased international cooperation and political will needed to achieve rules for agricultural trade which will benefit all.

But here helpful if one-sided campaign against EC and its export subsidies was stopped and replaced by more constructive overall approach covering eg. export refunds, subsidised credit, import restrictions (eg. US waivers which are now 30 years old and which sit uncomfortably with oft repeated cry of comparative advantage).

Keep in our minds background of increasing yields around world and also of political ties, major responsibilities which US/EC have in maintaining one world system and prosperity of West.

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Encouraging first step - agreement on recommendation of CTA to GATT contracting parties. But in trying to find new and tougher rules for agricultural trade must avoid getting trapped in endless semantics discussion -

- .prohibition of export subsidies with carefully defined exceptions, or
- .export subsidies with carefully defined restrictions.

Instead, concentrate on getting subsidies down. We, in the Community, have made a painful start - with milk in particular and with more to come.

Do I hear any further bids ?

(Att.)

POSSIBLE METHOD OF INCREASING MILK CONSUMPTION
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Encouraging the taking of baths in milk.

Old lady attracted to this idea (Why not ?
Never done it before etc.) puts out order with empty milk
bottle for 100 pints.

Milkman puzzled by size of order ...

Old lady - "not my usual pint, but 100 please.
Plan to take milk bath".

Milkman - "Do you want it pasteurized ?"

Old lady - "No only up to my chin"!

(Perhaps 7:30 AM is not the best time for this sort of thing).

Table 1: Guaranteed total quantities for deliveries to purchasers and quotas for direct sales 1984/85 - 1989/90

(thousand tonnes of milk
and milk equivalent)

	Actual deliveries to purchasers 1983 (1)	Guaranteed total quantity 1984/85	Community reserve 1984/85	Total quantity 1984/85	Total quantity 1984/85 : actual deliveries 1983 (%)	Guaranteed total quantity 1985/86 - 1989/90	Direct sales quota 1984/85 - 1989/90
Belgium	3 225	3 138	-	3 138	- 2.7	3 106	505
Denmark	5 227	4 932	-	4 932	- 5.6	4 882	1
Germany	25 176	23 487	-	23 487	- 6.7	23 248	305
France	26 120	25 585	-	25 585	- 2.0	25 325	1 183
Greece	444	472	-	472	+ 6.3	467	116
Ireland	5 280	5 280	245	5 525	+ 4.6	5 280	16
Italy	8 323	8 323	-	8 323	0	8 323	1 591
Luxembourg	283	268	25	293	+ 3.5	265	1
Netherlands	12 909	12 052	-	12 052	- 6.6	11 929	145
United Kingdom	16 585	15 487	65	15 552	- 6.2	15 327	398
EUR 10	103 572	99 024	335	99 359	- 4.1	98 152	4 261

(1) Provisional

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EAGGF, GUARANTEE SECTION, EXPENDITURE FOR 1983 BY SECTOR AND ECONOMIC NATURE OF THE MEASURES

Million ECU

Sectors	Total expenditure	Breakdown by type of measure					
		Export refunds	Market stabilization measures in the form of				Total
			Storage	Withdrawal : from the : market and : similar : operations :	Prices : subsidies :	Guidance : premiums :	
Cereals and rice	2,534	1,593	477	-	464	-	941
Milk products	4,396	1,327	1,029	-	1,948	92	3,069
of which : butter	(1,406)	(499)	(341)	-	(566)	-	(907)
Olive oil	675	10	12	-	653	-	665
Colza, rape and sunflower	925	4	- 4	-	925	-	921
Sugar	1,316	758	550	-	8	-	558
Beef and veal	1,737	828	632	-	173	103	908
Fruit and vegetables	1,196	58	-	304	834	-	1,138
Wine	659	20	143	391	105	-	639
Tobacco	671	28	29	-	615	-	643
Sheepmeat and goatmeat	306	-	-	-	306	-	306
Other (incl. fishery products)	1,016	595	25	17	379	-	422
Total A	15,431	5,220	2,893	712	6,410	195	10,211
Monetary compensatory amounts	489	340	-	-	149	-	149
Total B	15,920	5,560	2,893	712	6,559	195	10,360
%	= 100 %	= 35 %	= 18 %	= 5 %	= 41 %	= 1 %	= 65 %