

"INTERNATIONAL TRADE IN DAIRY PRODUCTS AND THE  
EUROPEAN ECONOMIC COMMUNITY POLICY"

Address presented

by

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Ladies and Gentlemen,

I very much appreciate the opportunity to participate in today's conference. Trade in dairy products has grown, together with U.S. dairy surpluses, to an important agenda item in US/EC discussions.

The European Economic Community, in short EC, has since 1981 10 Member States and about 270 million people. Measured on the basis of deliveries to dairies or dealers, the Community is the world's first milk producer with about 100 million tons of milk per year, followed in the West by the United States with about 60 million tons.

Unfortunately, we share still other records which are those of surpluses. At the end of 1982 both our countries held together about 80 % of the uncommitted world stocks, each in butter and non-fat dry milk (NFDM). In butter the EC held 306,000 tons against 175,000 tons in the U.S. In NFDM we were closer together - with 574.000 tons in the EC and 555.000 tons in the U.S. In cheese finally the U.S. are first with 351.000 tons in stock, while the EC has nearly none, due to the fact that cheese is no regular intervention product in the Community, although the EC is also the worlds first cheese exporter.

Were these surpluses only temporary ones, we could be relaxed. It seems, however, that international demand for dairy products does not keep up in the foreseeable future with increasing supplies. The gap between supply and

demand is such, that even traditional exporters like the EC and New Zealand find no longer the same export opportunities as in recent years. The world trade in NFDM declined since 1979 and world butter trade since 1981, while trade in cheese and condensed milk shows only modest expansion. Domestically, the situation in major developed countries is rather similar.

U.S. surplus stocks are in such a situation, therefore an additional burden not only to the U.S., but - by their simple existence, also for international trade in which the U.S. had only little part in the past.

A closer look shows that the world surplus situation is even worse than regularly publicized stock figures suggest.

In order to maintain, in cooperation with New Zealand in particular, world prices of butter and nonfat dry milk at reasonable levels, the Community uses nearly any suitable avenue either to prevent production or to dispose of major surplus quantities domestically.

Preventive measures, apart from price policy measures to which I will come later, include the payment of premiums for the cessation of farming, for the conversion of herds from milk to meat production, for the non-marketing of milk, for the slaughtering of cows, etc. Furthermore, dairy facilities are excluded from investment support programs.

In recent years, the Community had spent on such preventive programs about half a billion dollars.

In the area of domestic disposal, most noteworthy are the sales of butter and NFDM at reduced prices. Regarding butter such measures include

- general butter price subsidies which apply in the United Kingdom, Ireland, Luxembourg and Denmark, and are open for other Member States if they choose to apply it
- so-called Christmas butter sales at reduced prices
- subsidized sales to special social groups such as welfare receivers
- sales to armed forces and non-profit organizations
- sales for the production of butter concentrate and finally
- sales to the food industry such as bakeries and the icecream manufacturers.

In 1982 about 200.000 tons were sold by the last four measures and nearly 100.000 tons were in addition available for Christmas butter sales. How much was sold by general consumer subsidies in the 4 mentioned Member States I don't know, but it is clear, that there are financial and practical limits to direct consumption subsidies. Experience shows that butter consumption does not increase proportionally to price reductions. If a massive increase in consumption should be achieved, price reduction would have

to be such, that it becomes unbearable for any budget. The same is true regarding price subsidies for butter used in the food industry where butter prices have to be brought close to prices for vegetable oils and fats. Nevertheless, at least one half of overall EC domestic consumption of butter was subsidized in 1982.

In NFDM the domestic disposal programs were even more fascinating. In 1982 only about one sixth or 250,000 tons of NFDM were sold domestically at full market price. 1.34 million tons were subsidized into animal feed - in particular for calves feeding and in smaller quantities for pigs and poultry.

These various domestic efforts, undertaken in order to stabilise domestic prices, to keep stocks at reasonable levels and to protect world market prices, cost the Community in 1982 about 1.4 billion dollars. To this amount has to be added 350 million dollars storage costs, ending up in total costs of about 1.750 billion dollars for domestic intervention programs which do not include export refunds and food aid expenditure.

Export refunds for dairy products amounted 1982 to about 2.3 billion dollars, which brings our total 1982 dairy budget <sup>to</sup> somewhat more than 4 billion dollars.

When comparing these figures with expenditures in the U.S., we should keep in mind, that our expenditures, because of different bookkeeping methods, are definitive expenditures

while U.S. outlays represent to a large extent the costs of purchase of surplus products, which when sold back in one form or another, should still generate some revenues.

Dairy expenditures of more than 4 billion dollars accounted in 1982 for about one third of the EC agricultural budget.

All these indications no doubt show you the importance which we attach to the dairy sector and at the same time to the preservation and development of our markets for dairy products. Your Federal Department of Agriculture is aware of this, as recent statements clearly indicate. I don't wish to discuss indepth the wisdom of such statements, but let me briefly say the following: Any unilateral U.S. measures to capture part of the world dairy market by dumping U.S. surpluses, and I have not invented this expression, would force the Community to take protective measures which would certainly not be in the interest of the U.S. Speaking at this point absolutely personally, some of those measures could be

- Complaints under provisions of GATT against the United States; <sup>New Zealand</sup> and others might join the EC in such procedures.
- Increase in export refunds in order to maintain our markets and a close look at the few small markets the U.S. had so far for some of its dairy surpluses.
- Once export refunds become too expensive, the EC

may increase domestic disposal programs which naturally would displace, among others, soybeans from the United States.

- Finally, if worse comes to worst, we might even be obliged to resort to direct import restrictions.

Looking at these prospects, nobody - and certainly not the United States - can wish to see it happen. Any confrontation over dairy would spill over into other trade areas and finally affect our overall bilateral relationship. For other countries a U.S./EC dairy war would mean major losses, and for New Zealand it would result in near bankruptcy. The only country sure to gain from it, would be the Soviet Union.

Probably not so many in the U.S. public or even in the industry know how small and fragile the free part of the international dairy market really is. In order to illustrate to you this point, please let me quote some parts of a statement on behalf of the New Zealand Dairy Board before the Senate Committee on Agriculture on February 25, 1983:

" About 5 percent of total milk production is sold outside the country in which it is produced. Thus, about 95 % is consumed domestically, with the largest dairy markets in the world being those of the European Community, the Soviet Union, and the U.S. Between them they produce and consume more than half of the world's milk.

Of the 5 % of "world" markets that are "international", about half are governed by access restrictions in the form

of quotas and other Government trade barriers; so that the international markets which are open to commercial competition amount to only about 2 % - 3 % of total world dairy consumption.

For example, in 1980 world butter production was 6,550,000 tons a year. Of this, 5,930,000 tons were consumed within the producing countries, with an additional 418,000 tons imported under quotas or other Government restrictions. Only 202,000 tons of business was in the form of exports to markets which are not subject to official restrictions. CCC support stocks earlier this week were 427 million pounds, that is approximately 195,000 tons, or nearly one year's total "non-quota" international trade.

Likewise, cheese production worldwide was 11,600,000 tons in 1980, of which 10,900,000 tons were consumed in the producing countries along with 230,000 tons imported under restrictive quotas such as those in the US and EEC. Cheese exports to relatively "open" markets were just about 470,000 tons a year, but this comprised soft cheese, processed cheese, semi-hard cheese and hard cheese other than cheddar, as well as cheddar. The residual market for cheddar cheese was about 55,000 tons, most of which was supplied by New Zealand and Australia. Current U.S. Government stocks of cheddar are 746 million pounds, that is approximately 340,000 tons or enough in theory to displace all other cheddar exporting countries for over six years.

Non-fat dry milk (NFDM) is the other major product of significance. World production ran at about 4,340,000 tons in 1980, with domestic consumption of about 3,130,000 tons, plus 30,000 tons of restricted imports, for a total of close to 3,160,000 tons. In addition about 200,000 tons went for food aid after the normal inter-Governmental consultations to ensure that the donations posed no threat to commercial markets. About 110,000 tons were sold in 1980 for animal feed purposes at especially low prices; and 730,000 tons went for use in milk recombining industries. In the recombining trade the plants (mostly in developing countries) must be assured of continuity of supply and the continuing technological back-up from specialists in the field. This then is a specialized area of trade that could not be adequately supplied by the disposal of surplus product. The remaining commercial exports of approximately 140,000 tons compare with current CCC stocks of 1.3 billion pounds or nearly 600,000 tons.

It seems patently clear that there is simply not the market internationally to even come close to absorbing US surpluses for years to come. New Zealand has neither alternative markets, nor the resources to hold more than normal commercial stocks. It cannot therefore yield trade, even under the pressure of competing subsidization by Governments abroad. Under such conditions prices would rapidly fall to the GATT minima, and even these could come under pressure. To trade at these prices,

if it were possible, would cost the US Government the difference between the support prices and the GATT minima, or about \$1.00 per pound for butter and cheese and \$0.70 for NFDM.

For New Zealand, such an outcome would be a disaster."

It follows from what precedes, that the United States should not set their hopes on international markets. In the commercial area only the Soviet Union was in the recent past a major factor, but in the last few months doubt grew, whether or not the Soviets will purchase again volumes as large as in the past. If New Zealand, the Community and the U.S. wish to avoid for the remainder this to be played out one against the other, we have to develop a trilateral approach characterized by pragmatism. Other potential commercial markets lay in the developing countries, but these markets grow too slowly in order to absorb major additional volume within the very near future.

In the area of food aid, outlets are equally limited. Dairy products are highly perishable as you know and major investments not only in equipment but also in qualified persons are necessary to bring the products to the people in need and to help them rather than doing harm. Traditional dairy food aid donors including the U.S. have probably filled already in the past any apparent need which can practically be served.

Additional dairy donations from the US if not accompanied by major investments into infrastructure could only replace food aid or commercial sales from other countries, end up as waste or, worst of all, be fed under conditions which endanger rather than increase the health of the recipients.

The only short term remedy in the present situation for the US, seems to me therefore, to give even more emphasis to domestic disposal programs as shown by the EC.

If we can serve as an example in this respect, unfortunately we cannot with regard to the only <sup>reasonable</sup> long term solution which is at least a freeze if not a significant reduction in production. Let me come to this point a little bit later, after summarizing the EC's policy with regard to exports.

In the area of food aid, the Community continues to cooperate with recipient and donor countries alike in order to give recipients as much help as possible without interfering with commercial trade. New approaches in food aid policy such as multiannual planning and cooperation in regional development plans may help the EC to develop additional demand and distribution facilities for dairy food aid deliveries.

In the commercial area, the EC intends to maintain at least its present share in international dairy trade. In butter and NFDM our share came recently under pressure, while we did better in cheese exports, where the international market was still

on the increase. The EC, mainly via its Member States' promotion offices, participates also in market research and export promotion in order to increase worldwide demand. Of our foremost concern is, however, the protection of world market prices. As in the domestic market, you don't sell that much more internationally when prices are lower, and lower prices would mean higher export costs or smaller revenues for all countries participating in dairy exports. World market prices, because of common price discipline, nearly doubled in recent years. The GATT dairy agreement, concluded at the end of the Tokyo Round, provides a useful framework for international cooperation in this area.

Of particular interest in our dairy exports are our shipments to the United States. The GATT agreement allows the EC to ship annually 43,554 tons of so-called quota cheese to the U.S. The United States have been paid for this concession by EC concessions in other areas. We are therefore confident, that no difficulties will be raised to such imports. More as a footnote I should mention, that the quotas are anyhow only legal because of a GATT waiver granted many years ago. It may however console you that we have not yet filled all our quotas. Non quota cheeses reach the US without export refunds and should therefore not create any problem either.

Sometimes I hear that such imports replace domestic market production which is building up in form of stocks. This is true to a certain extent

although not everybody in the U.S. who eats Roquefort would eat American Blue or Cheddar if Roquefort were not available. But apart from the GATT aspect you could also get a positive kick out of the situation. It is a fact that only cheese and some other products such as yoghurt can still contribute to a significant increase in consumption. Imports of such products play therefore an important role in educating the consumer and creating the demand which in the long run will also increasingly benefit the U.S. producers and farmers. I have already seen and tasted very encouraging steps in this direction.

Finally, let us have a word about imports of casein which is probably the only dairy product not yet under import quota. By trying to force it under quota as well, the U.S. risk only increased opposition against its so-called Section 22 import quotas in general and possibly retaliation. In addition, a number of ITC investigations have shown that casein imports do not interfere with the domestic support program. The Community accounted in the recent past for about 25% of U.S. casein imports, and such trade is of particular importance to Ireland. It would not mean any change to the U.S., would the E.C. be denied access because of our casein production premiums. Other countries such as Australia and New Zealand would easily take up the share held by the E.C. However, such U.S. action against the E.C. would be a violation of U.S. GATT obligations.

Regarding imports I should briefly mention that the E.C. is the second largest cheese importer after the United States and also the second largest butter importer after the Soviet Union.

Let me return to the domestic front:

With production and consumption levels drifting more and more apart, it is unavoidable that the Community continues

and even extends domestic disposal measures. The newest Commission proposal in this area suggests full Community financing of school milk programs which until now are co-

financed by the EC and the Member States budgets.

Additional proposals certainly will follow. But none of these measures can bring a final solution.

Everybody knows that what under market aspects would be needed, is a freeze if not a cut in production. But everybody also knows that this is - at least not yet - politically acceptable. We had during a number of years support price freezes, but even during such times milk production increased. We tried to influence farmers' production decisions by a so-called co-responsibility levy which probably was never high enough to have a real impact except with regard to budget outlays were the levy receipts finance at present about 10 % of surplus disposal costs. We kept support price increases low at times of strongly increasing production costs and helped the smallest farmers in defavored regions with deficiency payments instead of adjusting support prices according to their needs. We try this year to limit price support increases for milkproducts to 2.5 % while proposing for the agricultural sector in general an increase of 5.5 %. But this measure such as all others mentioned before will at best reduce the rate of production increase but not bring us much closer to the solution of the real problem which remains mainly a structural one and can only be overcome in the very long term.

While U.S. farmers reduced their number of dairy cows from 25 million in 1944 to 11 million cows today, the EC cow number has stabilized over the last 20 years at around 25 million. During the same period production per dairy cow increased from 6,600 pound annually to slightly more than 8,800 pounds. Such increase of productivity, although still well below the US, reflects a major change in our dairy farm structure. In the last 10 years the number of farms producing milk decreased by 25 % to about 1.8 million holdings. This trend which was accompanied by an increase in herdsizes and the quality and health of the breeding stock, will continue although at a lower speed than in the past due to adverse general economic conditions.

Due to an increase in the delivery rate of production to dairies which is today around 92 % and further yield gains due to intensive feeding and continued breed selection, we will reach sooner or later average performance levels of 14,000 pounds per cow as today already observed in a number of states in the US. While such evolution suggests further restrictions in price support parallel to productivity gains, the problem remains that productivity gains are distributed very unevenly among farmers. 80 % of our dairy farms carry fewer than 20 dairy cows each. The Community average is only 15 cows per farm with 6.5 for Italy on the one hand, and 53 for United Kingdom on the other.

Many of those smaller farms have to make a living from their milk sales as they have not too many alternatives. In addition, they help to pursue \ by keeping their cows grazing, important ecological and other goals of the Community including the very important aim to maintain... a sufficient infrastructure in rural areas. And in the end, the major increase in production does not come from the small farmers, but from the most productive ones who invest heavily and use mainly purchased feed stuff, much of which comes from the U.S. There are however few means to avoid such evolution. The Community has for legal and philosophical reasons never applied production quotas and until now the Member States are not yet ready to limit dairy support clearly to a predetermined volume per farm or used grassland acreage. I personally believe we will not have much choice but come to some sort of a system where support levels are differentiated according to productivity. Some very small steps are already taken in this direction, but now we need in my view a big jump. It may not stabilize immediately production but it will at least take away part of the financial burden. A complete deficiency payment system cannot be the answer as outlays would reach politically unacceptable levels. But introduced last year on a small scale for the most disadvantaged producers it might in my view become a permanent part of a more complex system.

To conclude my remarks, let me thank you for your attention and express the hope that a US/EC trade dispute over man's first soft drink can be avoided and that we will reach as brothers the Promised Land, where milk and honey flow in just the right amount.