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CURRENT SITUATION AND FUTURE TRENDS IN THE MILK INDUSTRY

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INTRODUCTION

The importance of the milk industry in Community agriculture needs no further demonstration. In 1972, milk production represented 32% by value of livestock products and 19% by value of the total agricultural output of the Nine. Its importance can also be seen in the acreage devoted to it and the number of dairy farms. Of the agricultural area in use (AAU) in the EEC, 57.3% were given over to green fodder and permanent pasture in 1971. In the same year 2.7 million holdings, nearly half the holdings in the Nine, were producing milk.

It should also be noted that the milk industry accounted for 43.2% (1 483 million u.a.) of expenditure by the Guarantee Section of the EAGGF in the 1973 EEC budget, and the estimated percentage for 1974 is 50.3%.

The importance of the milk industry certainly explains the type of publicity which it attracts, with terms such as "crues laitières" (milk floods), "butter mountains", "cut-price butter for the USSR", which from being specialists' jargon have reached the headlines.

It can be said without undue pessimism that the market in milk products holds many problems for those concerned with its organization at national and Community level, such as the growing volume of supply, the stagnating demand, and the existence of thousands of small producers for whom the milk cheque is in fact their livelihood.

On account of these factors, the Commission devoted a large part of its communication on the improvement of the common agricultural policy to improving the operation of the milk industry.

It is also this part of the communication which has provoked most comment from the farming world.

I. PRODUCTION: The upswing in production, which started in 1972, maintained its momentum in 1973

From 1968 to 1971 milk production in the Community fell off slightly, from 72.4m metric tons to 70.3 m in the Six and from 93.8 m metric tons to 91.9 m in the Nine. The drop was not universal: in three countries, the Netherlands, the United Kingdom and Ireland, production increased. The trend was reversed in 1972 when in all the countries without exception production increased over 1971. Total production rose by 3.6 m metric tons in the Six and by 4.4 m in the Nine. The increase was greatest in France (up 1.8 m metric tons) and in the United Kingdom (up to 800 000).. This upturn in production in the Nine was confirmed in 1973, with an estimated 98 m metric tons, as the following table shows:

Cows-milk production in the Community (in millions of metric tons)

	1968	1971	1972	1973[1]
Germany	22.1	21.1	21.4	
France	28.4	27.6	29.4	
Italy	10.0	9.3	9.7	
Netherlands	7.7	8.3	8.9	
Belgium	3.9	3.6	3.7	
Luxembourg	0.2	0.2	0.2	
Europe of the Six	72.4	70.3	73.6	
United Kingdom	12.5	13.2	14.0	
Ireland	3.6	3.7	3.8	
Denmark	5.1	4.5	4.7	
Europe of the Nine	93.8	91.9	96.3	98.0

[1]Estimated figure.

Milk deliveries to the dairies followed the production trend, falling between 1968 and 1971 and rising again in 1972 and 1973. However, the delivery rate (the percentage of production not consumed at source by producers) has continued to increase.

Milk delivered to dairies and delivery rates

	1968		1971		1972		1973	
	Six	Nine	Six	Nine	Six	Nine	Six	Nine
Deliveries (mill. m t)	55.7	75.0	55.4	74.8	58.9	79.5	-	80
Delivery rates	77.0	80	78.8	81.4	79.9	82.2	-	83.7

This increase in milk production in the Community is primarily due to higher yields, which rose from 3 283 kg in 1968 to 3 442 kg in 1972, whereas the number of dairy cattle in the EEC has been steadily falling:

- in the Six, from 22.0 million head in 1968 to 21.4 million head in 1972;
- in the Nine, from 28.1 million head in 1968 to 27.7 million head in 1972 (however, the number is expected to rise to 28 million head in 1973).

In three countries, however, the number of dairy cattle has increased between 1968 and 1972: the Netherlands (from 1.8 to 2.0 million head), the United Kingdom (from 3.2 to 3.3 million head) and Ireland (from 1.6 to 1.8 million head).

II. UTILIZATION: The level of butter stocks remains disturbingly high

In the EEC butter-manufacture is the largest single use of milk, as the following table shows:

Utilization of whole milk (1972)

drinking milk	23.1%	
butter skimmed milk powder	38.8%	(calculation based on typical fat content)
cheese	18.7%	
condensed milk	3.5%	
whole milk powder	2.0%	
animal feed	12.8%	
other	1.1%	

Butter production in the EEC usually follows the variations in milk production and has thus increased over the last two years, from 1 235 m metric tons in 1971 to 1 378 m in 1972. In 1973, production is estimated at 1 480 m metric tons for the Six and 1.8 m for the Nine. Over the same period, however, per capita consumption fell steadily, from 6.2 kg in 1968 to 5.5 kg in 1972 (consumption of margarine, however, has remained stationary and that of edible oil has continued to increase).

It is therefore obvious that butter production has substantially exceeded internal consumption, as the following figures show:

Year	1968	1969	1970	1971	1972 (in 1 000 m t)
Surplus of production over consumption	253	157	137	181	308

The marketing of these surpluses is therefore a crucial problem for the Community authorities. They have sought to deal with it in three ways:

(i) sale of butter on the internal market at reduced prices (averaging about 80% of the normal price),
(ii) increased exports,
(iii) special international and Community food aid measures.

From 1968 to 1973, this policy produced the following results:

(in 1000 m t)

	1968	1969	1970	1971	1972	1973[1]
Sales at reduced prices	21	56	112	15	35	118
Exports	101	89	138	182	56	310
International measures	-	16	47	-	7	80
Food aid	-	-	14	14	16	20
Total	122	177	211	215	114	528

[1] Estimated figures.

The combined effect of production and consumption trends and these disposal measures has been to cause the level of Community butter stocks to rise substantially since 1968 as the following table shows:

Butter stocks in the Community at 1 April (1968-1973)

(in 1 000 m t)

Member State	1968	1969	1970	1971	1972	1973
Germany	66.8	92.5	81.8	19.4	42.8	118.2
France	72.5	135.5	76.7	6.5	6.3	127.8
Italy	0.3	-	-	-	-	-
Netherlands	15.7	35.8	52.5	0.5	7.7	20.6
Belgium	4.7	6.2	8.8	0.4	1.2	21.0
Luxembourg	-	-	0.2	-	-	1.9
The Six	160.0	270.0	220.0	26.8	58.0	289.5
United Kingdom						-
Ireland						-
Denmark						5.2
The Nine						294.7

It should be pointed out, however, that in 1973 stocks of about 120 000 metric tons of butter were held in private hands, including nearly 105 000 metric tons in the United Kingdom.

No major problems for the utilization of other milk products

While the level of Community butter stocks remains disturbingly high, the Community authorities have not been faced over the last few years with any immediate difficulties as regards the use of other milk products.

Skimmed milk powder: Also following the trend in milk production, the production of skimmed milk powder fell between 1968 and 1971 and rose again in 1972 and 1973. This increase in production, however, unlike that of butter was accompanied by a substantial and fairly steady rise in consumption (up 29% between 1968 and 1972). This rise in consumption was largely due to increased sales of milk powder at reduced prices for feeding to calves, and supplies were ensured by reducing exports and drawing on stocks.

Trends in the market for skimmed milk powder (in 1 000 m t)

(Europe of the Six) &	1968	1971	1972	1973
Production	1 318	1 140	1 357	1 500
(Europe of the Nine)			1 654	1 840
Imports	21	4	1	-
Consumption	963	1 073	1 233	1 350
Exports	242	141	93	270
of which food aid	-	47	36	70
Stocks	238	22	49	-

Cheese: Here too, production in the Six increased substantially between 1968 and 1972, from 1.9 m metric tons to 2.3 m. For 1973, production in the Nine is estimated at 2.6 m metric tons. Over the same period, total consumption rose by 23%, from 1 855 m metric tons to 2 227 m. Consumption per head rose from 10 to 12 kg. As a result, net exports from the EEC fell appreciably, from 49 000 to 41 000 metric tons in 1972.

Condensed milk: Consumption of condensed milk also increased, though less sharply than cheese, from 73 100 metric tons in 1968 to 75 000 in 1972, an increase of 2.6%. Consumption per head, however, fell from 4.2 to 3.9 kg. Production fell by 3.2%, causing a drop in EEC exports of 13.2%: 428 500 metric tons in 1968 against 371 900 metric tons in 1972).

Whole milk powder: Production has increased sharply: up 44% between 1968 and 1972. The volume produced, however, remains far higher than internal consumption, even though that increased by 25% over the same period. The EEC has therefore had to increase its exports by 81%: 110 000 metric tons in 1972 against 60 900 metric tons in 1968.

Caseins: In 1972 there was an improved balance between supply and demand. From 1968 to 1972, production rose by 36%, from 30 000 metric tons to 41 000 metric tons. The increase in consumption was slightly lower (up 33%), rising from 35 000 to 46 700 metric tons. Net imports increased, however, to 16 000 metric tons in 1972.

III. PRICES: Slight increases in producer prices but very large rises in consumer prices

The years 1968 to 1973 were marked by a relatively slight increase in producer prices and a substantial increase in consumer prices.

All common prices for milk products were frozen from 1968/69 until 1971/72. In the latter marketing year the Six increased the target price by an average of 5.8% over previous years. In 1972/73 the EEC Council substantially increased this average rate to 8%. For the marketing year 1973/74 the Nine adopted smaller increases (averaging 5.5%). As an exceptional measure, the Council applied a corrective factor to the intervention price for skimmed milk powder in the Member States which had revalued their currency (Germany and Benelux). This lower rate led directly to a reduction in milk prices of 1.5%.

The slight increase in the target prices was reflected on the market. Between 1968 and 1971, despite a substantial fall in production, prices obtained by producers increased only slightly in all Member States. From 1971 onwards, producer prices rose more sharply, between 3 and 6% between 1971 and 1973, in line with the increase in common prices. It should be noted, however, that this increase was always smaller than those in other sectors of the economy and also smaller than the increase in production costs.

Prices received by agricultural producers from 1968 to 1972

(Ex farm) (whole milk 3.7%)

Country (u.a./100 kg)

	1968/69	1970/71	1971/72
Germany	9.475	10.546	11.585
France	9.267	9.596	10.885
Italy	10.880	12.320	13.720
Netherlands	9.511	9.671	10.793
Belgium	9.360	9.500	9.960
Luxembourg	10.160	10.360	10.700
United Kingdom	8.544	9.336	10.260
Ireland	6.324	6.588	7.236
Denmark	5.700	6.533	7.629

In contrast, the consumer price index for milk products, in line with the marked inflationary tendency in all EEC Member States, has climbed steeply throughout the EEC since 1970, with increases of between 20 and 30%. Between 1968 and 1973, however, the increases were smaller than those for other food products.

The same trend governed world market prices. For butter, the world price remained constant at 30 u.a./100 kg until 1970. In 1971 alone it jumped to 130 u.a./100 kg. It stayed at this level until the end of 1972 and then fell to a more "reasonable" level in 1973, 60 u.a./100 kg.

The same thing happened to skimmed milk powder, the world prices for which leaped from 13 u.a./100 kg to 70 u.a./100 kg between 1970 and 1971.

Faced with these soaring world prices, the Community was obliged to introduce an export tax in order to prevent exports from reaching too high a level and causing shortages on the internal market. The world market then subsided to prices of between 40 and 45 u.a./100 kg. World market prices for other milk products followed much the same course as those for butter and skimmed milk powder.

IV. TRADE: Six million metric tons of milk-equivalent for export?

For only two products, cheese and casein, are the imports of the EEC of the Six at all significant. For cheese they represent two-thirds of exports, i.e. 80 000 metric tons against 120 000 metric tons in 1972. Community purchases of cheeses have varied little since 1968, always remaining around 80 000 metric tons. Imports of caseins on the other hand, which are much higher than exports, have varied widely, falling by half for example between 1969 and 1972.

Community exports of milk products are much more substantial as can be seen from the fact that between 1968 and 1972 the production surplus, or more exactly the surplus of deliveries to dairies over "normal" consumption, rose from 4.5 m metric tons to 8 m metric tons.

Community exports of milk products other than butter and skimmed milk powder represented the equivalent of 3.7 to 4.5 m metric tons of milk in 1968/69/70 and rose slightly in 1971/72.

Sales of whole milk powder climbed steadily from 60 000 metric tons in 1968 to 110 000 metric tons in 1972, while Community exports of condensed milk stand at about 400 000 metric tons, a higher level than for any other milk product.

In 1973, exports of milk products other than butter and skimmed milk powder from the nine-country EEC are estimated at about 5 m metric tons of milk-equivalent.

Due to the contract for the sale of 200 000 metric tons of butter to the USSR, estimated butter exports were nearly 300 000 metric tons, while estimated exports of skimmed milk powder were about 200 000 metric tons.

In future years, Commission experts estimate that Community exports of milk products will be between 5 and 6 m metric tons of milk-equivalent, not counting about 1 m metric tons supplied under food aid.

Table II.B/13.9 Community production, foreign trade and consumption of the main milk products (1968-1972)

(in '000 m t)

Product	Production	Imports	Exports	Available for consumption
Whole milk powder[1]				
1968	189.0	2.8	60.9	130.9
1969	208.0	2.6	70.6	140.0
1970	218.0	2.4	68.4	152.0
1971	250.0	2.3	117.4	134.9
1972[2]	273.0	0.2	110.0	163.2
Skimmed milk powder				
1968	1 318.0	20.5	242.3	1 096.2
1969	1 215.0	21.4	91.1	1 145.3
1970	1 191.0	10.9	233.9	968.0
1971	1 140.0	4.3	140.8	1 003.5
1972[2]	1 357.0	0.7	93.3	1 264.4
Condensed milk				
1968	1 159.0	0.6	428.5	731.1
1969	1 161.0	0.2	420.4	740.8
1970	1 161.0	-	421.0	740.0
1971	1 157.0	0.9	405.0	752.9
1972[2]	1 122.0	-	371.9	750.1
Butter				
1968	1 403.0	5.0	106.0	1 302.0
1969	1 349.0	7.0	105.0	1 251.0
1970	1 298.0	3.4	199.3	1 102.1
1971	1 230.0	4.9	195.9	1 039.0
1972[2]	1 378.0	2.7	78.5	1 302.2
Cheese				
1968	1 904.0	79.4	128.4	1 855.0
1969	1 993.0	68.6	109.1	1 952.5
1970	2 059.0	83.3	112.9	2 029.9
1971	2 184.0	78.4	115.8	2 146.6
1972[2]	2 319.0	77.9	119.0	2 277.9
Casein				
1968	30.0	18.4	13.4	35.0
1969	29.0	33.0	11.3	50.7
1970	27.0	33.0	9.8	50.2
1971	34.0	26.5	10.4	50.1
1972[2]	41.0	16.4	10.7	46.7

[1] Including partially skimmed milk powder.
[2] Provisional figures, EC Commission, Directorate-General for Agriculture.

Source: SOEC and information supplied by Member States.

V. THE MARKETING STRUCTURE: The trend towards concentration continues

In 1960 there were over 15 000 dairies in the six-country Community; in 1972 there were fewer than 10 000. These two figures show how fast is the movement towards concentration in the Community milk industry. This trend is not only a technical one (manufacture), but extends also to commercial organization, with the expansion of distribution networks, and to financial organization, with the establishment of groups which are often multinational.

The concentration of dairies is shown by the following table:

Number of dairies in the Community

Country	1965	1969	1972
Belgium	209	143	107
Germany	2 206	1 490	997
France	3 272	2 904	2 501
Italy	7 767	6 300	5 570
Luxembourg	4	4	4
Netherlands	407	322	257
Denmark	–	697	–
Ireland	–	162	–
United Kingdom	–	1 019	–
Europe of the Six	13 865	11 163	9 436
Europe of the Nine	–	13 041	(11 300)