

EUROPEAN COMMUNITY

# GREEN EUROPE NEWSLETTER

IN BRIEF

## **Butter exports: one useful measure to reduce Community stocks**

November 1979

Original EN



Published by the Agricultural Information Service of the Directorate-General for Agriculture  
European Community Commission - 200, rue de la Loi, 1049 Bruxelles  
Supplement to the Documentation Bulletin - D/AGR./EN

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In the field covered by the common agricultural policy, it is the task of the Commission of the European Communities to run the individual market organizations, mainly on the basis of regulations. When doing this, it must comply with the decisions of the Council of the European Communities, which means that it must respect general guidelines adopted by the agricultural ministers. With regard to milk and milk products, the situation is particularly difficult in that very heavy surpluses have built up on the market, not only within the Community but also on the world market.

This matter cannot be seen in perspective without recalling the effects of the Community's decisions on support for its dairy farmers. The Commission has made clear, both in factual reports which have not been disputed and in successive proposals, that there is a serious and growing surplus of milk in the Community and that we ought to have the courage to take the measures necessary to correct the imbalance. Until this is done, the European Community will be faced continuously with the serious problems of disposal of milk products either in export markets or at a higher budgetary cost on our own market. The Commission cannot simply opt out of its obligation to manage the market and to keep surplus stocks under control. In order to handle the surpluses, which mainly take the form of butter or skimmed milk powder stocks, a number of alternatives are available to the Commission. The price standstill in units of account this year will have some effect but the Commission considers that additional proposals, which were not accepted by the Council, are more and more necessary. However, just tinkering with a few thousand tonnes of exports is not a substitute for a firm policy to get our production under control.

A fairly large number of measures have been devised to cope with the milk surpluses including cheap sales of butter to the processing industry, to welfare agencies and to the armed forces, and also its disposal as food aid in the form of butter-oil (45,000 tonnes). Some of these possibilities are

familiar to the consumer, as for example the sale of cheap butter in shops and supermarkets from October onwards this year.

One measure foreseen and currently applied is the export of milk products, including cheese, milk powder and condensed milk as well as butter, to non-member countries. Some of the member countries of the European Community, including the Netherlands and Denmark, have always been heavy traditional exporters of milk products. The difference between the situation now and that before their membership of the Common Market is that their exports are now carried out under Community arrangements.

Because of the surplus world market situation and the resulting keen competition in the customer countries and the limited demand in terms of purchasing power, the Community has no choice but to bring export prices down to the world market level. When implementing the relevant measures, that is to say, when fixing the level of refund, the Commission can refer to Article 17 of the basic regulation on milk and milk products, which stipulates that the refund must correspond to the difference between the price being charged for butter on the world market and the price being charged for butter in the Community. The quantities involved should be kept in perspective. The Community produces about 2 million tonnes of butter a year. In 1978 our butter production rose in a single year by about 152,000 tonnes. The public intervention stock of butter is about 320,000 tonnes not including private storage aided stock of 230,000 tonnes.

Of course, the quantity of butter sold on the Community's internal market is a good deal larger than the quantity exported to countries outside the Community.

The Commission has massively expanded the programmes of subsidized disposal to Community consumers both of skimmed milk powder and, despite the difficulties, of butter. In 1977 we paid on the sale to our consumers of about 534,000 tonnes of butter; in 1978 about 632,000 tonnes; and in 1979 an estimated 700,000 tonnes of butter will probably have been made available under the low-price schemes. That is an increase of almost 100,000 tonnes a year. Last year we paid subsidy on six times as much butter in the Community's own market as we exported. The total sales of butter within the Community for 1979 are estimated at 1,686,000 tonnes, of which the 700,000 tonnes, or more than 40 %, is low-price butter. It costs less to export butter on the world market than to

dispose of the same quantities by subsidized sales within the Community. Every additional shipment of butter sold to a non-member country costs the Community Fund roughly half as much in subsidies as the same additional quantity sold on the internal market. This year almost 4,500 million EUA will be spent on dairy market support - more than half of which on the storage and internal sale of butter, skimmed milk powder and liquid skimmed milk on food aid on structural measures aimed at reducing dairy cow numbers. The purpose of our disposal programmes is, of course, to get rid of extra tonnes consistently with our other policies and at least cost to the budget. The Commission estimates that the cost to the Community budget of disposing of each extra 100 kg is now about 660 ECU under the general butter subsidy in effect in the United Kingdom, about 450 ECU under the special butter sales which are about to be launched in many Member States and about 199 ECU for exports. Export is about the cheapest method of disposing of surplus butter, costing the budget less than half as much for each extra tonne disposed of as the general butter subsidy schemes within the Community.

The trend of EEC butter exports on the world market is as follows :

1977	-	219,000 tonnes
1978	-	100,000 tonnes
(Jan. - June) 1979	-	150,000 tonnes (provisional)

There are two methods for exporting subsidized butter to countries outside the Community :

- (a) refund fixed in advance,
- (b) daily refunds.

Of course, the Commission's staff keep under constant review the quantities of butter of all kinds exported on the world market on the basis of refunds. The refunds fixed in advance have the advantage for the exporter that the refund, once fixed, cannot be changed for a fairly long period and the exporter is therefore sure, in respect of current contracts and butter shipments scheduled some time ahead, that he will receive a given sum, whilst the daily refund can be lowered overnight. At the end of September 1979, the refund was 198.90 ECU/100 kg. Supported by the refund, the butter is exported to the world market and there is that much less butter to be disposed of on the internal market, or stocked.

If it is remembered that the intervention price at which butter is bought in on the internal market and stocked is 284.70 ECU/100 kg, it is clear that there is an appreciable saving for Community funds if the butter can be exported. The refund is the same for all uses or destinations, irrespective of whether the butter goes to Japan or to ports much nearer the Community. It is Commission policy to fix the sales price free-on-board. This is in line with GATT principles.

Of late, there has been a good deal of criticism of the fact that EEC butter exports to the world market include some sales to the Soviet Union and other Eastern European countries. Given the export arrangements mentioned above and the freedom of choice of country of destination, there is no official influence on exporters as to where they send their exports. In practice, the exports of butter to the Soviet Union are very irregular, as are also exports of manufactures to that country. From 1973 to 1977, no butter at all from the Community went to the Soviet Union.

From 1977 onwards, the following quantities were exported :

1977	-	50,000 tonnes
1978	-	21,000 tonnes
(Jan. - June) 1979	-	66,000 tonnes (provisional)

In fact, a good part of the butter actually exported in the first half of this year is the same butter which was under discussion in press and Parliament in 1978. In the eighteen months to June 1979 the Community exported only about 2 % of its butter production to the Soviet Union.

In providing an export refund, the Commission is executing the law just as when it provides subsidies for the internal consumption of dairy products. And the rules governing export refunds are also clear - they can be differentiated for economic but not for political reasons. It is against the rules to set an export refund but then to exclude particular countries on political grounds. There is no question of a special refund or a special deal for the Soviet Union. The normal export refund is in effect and is not differentiated in favour of the Soviet Union.

The Commission is continuing to monitor the quantities of butter for which prefixation of the export refund is sought. This is a useful provision because

prefixations can influence the position for a long period ahead. Under this provision the Commission suspended prefixations for a short period last autumn when it was not clear whether a certain quantity was intended for export to the Soviet Union and gave the Council and the Chairman of the relevant Committees of Parliament an opportunity to comment.

Recently there has been a change in the pattern, with a greater percentage of the trade taking place without prefixation. When the export refund is not prefixed, information was not available to the Commission until a period of weeks after export.

The arrangements have recently been supplemented by a regulation under which licenses are to be required for all exports of butter from the Community, irrespective of whether there has been prefixation. Information is now available and action can be taken to ensure that export refunds are adjusted quickly, if justified on economic grounds on the basis of the most recent information.

The Commission does not see valid commercial or financial reasons for the general suspension of export refunds to the Soviet Union or any other destination in the present situation of milk surplus. As long as Community butter production exceeds the scope for sales in the Community, the export of butter on the world market is likely to take place. At the present time as much as 400,000 tonnes of butter could be exported without a shortage arising in the Community. The costs for the Community budget as a result of this would, it is true, be high, but they would still be lower than the cost of any attempt to dispose of all the butter now stocked by additional subsidized sales on the internal market.

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Considering the balance sheet and the cost of disposal it is also relevant that the Community is importing substantial quantities of New Zealand butter - this year 120,000 tonnes - on specially favourable terms.

It is evident that these imports have some bearing on the balance of the internal butter market. These imports derive from the Community's international obligations entered into at the time of accession of the United Kingdom and from a political consensus subsequently. The Commission has presented in a recent report its views on the future relationship between the Community as a whole and New Zealand in this area. On average the Community is now increasing its production every year by more or less half the New Zealand entitlement (1).

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The Community's agricultural markets have to be managed in a business-like way if taxpayers' money is to be well spent. The sale of surplus dairy commodities is made necessary by the fundamental disequilibrium in the milk market : consumption at full market prices is declining yet production is increasing year after year. This disequilibrium is what gives rise to our difficulties.

Political embarrassment over this sale or that sale will exist so long as we do nothing to reduce production. That is a basic truth from which there is no escape and does not go away merely by being ignored.

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(1) New Zealand import entitlement : 120,000 tonnes in 1979 and 115,000 tonnes in 1980 compared to a butter production increase in the Community about 150,000 tonnes in 1978 and an estimated increase of 40,000 tonnes in 1979, i.e. about 190,000 tonnes in 2 years.

## SUMMARY

### Balance with internal disposal schemes

1. The Community produces about 2 million tonnes of butter a year. About 700,000 tonnes are now being subsidized for disposal on the Community's own market. Principal schemes are the general butter subsidy in UK, DK, IRL, L (estimated cost in 1979 : 132 MEUA), special sales in other Member States (estimated cost in 1979 : about 80 MEUA); cheap butter for bakers, ice cream manufacturers etc. (estimated cost in 1979 : about 274 MEUA). Total cost of direct butter subsidies on Community market in 1979 about 486 MEUA.
  2. The export refund on butter is now 1989 ECU per tonne. Thus the cost of the refund on 66,000 tonnes, the estimated exports to the Soviet Union in Jan. - June 1979, is just over 130 MEUA.
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