

Newsletter on the Common Agricultural Policy

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COMMISSION REPORT ON THE ECONOMIC SITUATION
OF THE MILK AND MILK PRODUCTS SECTOR IN THE COMMUNITY

Since the date on which single market organizations for milk and milk products and for beef and veal were to be introduced was rapidly approaching, the Commission submitted its proposals for regulations governing these products and a report on the economic situation of the milk and milk products sector in the Community to the Council of Ministers. The Council began its examination of this report and the associated proposals at its meeting on 22-23 January and continued its discussions at subsequent meetings.

The Commission's reasons for submitting this document to the Council were as follows:

- (a) To enable the Council to study the present market situation and future trends;
- (b) To propose a series of measures to reduce existing surpluses in this sector;
- (c) To assess the cost of a common milk policy.

The Commission's intention was that the report should provide background material for the regulations dealing with the common market organizations.

The report is divided into three parts:

- Part A
 - (i) surveys the present market situation and discusses the factors which have caused it;
 - (ii) forecasts the probable trends of production, external trade and consumption in the years immediately following the establishment of the single market.
- Part B
 - (i) reviews the measures which can be taken under Regulation No.13/64/CEE and in accordance with the decisions of July 1966 to reduce the sizeable surpluses which now exist;
 - (ii) estimates the cost of applying these measures in the 1968/69 marketing year.
- Part C
 - (i) estimates the overall cost of the common milk policy.

Having submitted this report to the Council, the Commission indicated that the measures contemplated in it were only designed to keep the volume of existing stocks of dairy produce within bounds. It reserved the right to submit proposals for more detailed structural measures designed to lessen the danger of such imposing surpluses being built up in the future. The figures and estimates contained in the report can be regarded as valid, assuming that these structural measures are not put into effect, but they must be treated with the reserve with which all calculations and estimates for agriculture are to be viewed.

A. Comments on the economic situation of the milk and milk products sector in the Community

1. The present situation

The first part of this Chapter deals with the present-day situation.

It begins with some remarks about the dairy cow population which has changed very little between 1960 and 1966; it has been fairly stable on the whole despite variations in 1963 and 1964. The EEC's dairy cow population only increased from 21.3 million in 1960 to 22.1 million in 1967. In the same period however milk production and deliveries to creameries went up quite considerably. Total EEC production of cow's milk rose from 63 million tons in 1960 to 72.5 million tons in 1967. Even more remarkable is the increase in deliveries to creameries, which jumped from 41.2 million to 53.5 million tons in the same period. The significance of these three trends will be more clearly seen if they are translated into index numbers. Taking 1960 as the base year, the dairy cow population, milk production and deliveries to creameries all equalling 100, the following picture emerges:

	Dairy Cows		Milk Production		Deliveries	
	'000 head	1960 = 100	'000 tons	1960 = 100	'000 tons	1960 = 100
1960	21 367	100	63 053	100	41 217	100
1967	22 100	103	72 500	115	53 500	130

Let us now analyse these trends. The main reason for the increase in production is better yields; the Community average for yield per cow has increased from 2 950 kg per year to 3 295 kg per year. These better yields are due to progress in animal breeding techniques and to the growing use of concentrated feeds. In the ten-year period from 1957 to 1967 the feeding of concentrates to cattle jumped from 2 million tons to six or seven million tons of feeding cake and other vegetable protein feeds. Deliveries to creameries however increased more than

production. The explanation for this may well lie in a whole series of developments which were a feature of these ten years; these included a reduction in consumption on the farm, the fact that less milk is being processed on the farm and above all the considerable fall-off in the amount of whole milk fed to calves. This last trend is borne out by the growing use of skim milk powder and vegetable fats in the manufacture of compound animal feedingstuffs.

The Community was virtually self-sufficient in milk products by the end of 1964; from 1965 onwards it became a net exporter of both fat and non-fat milk products. Exports in 1967 are likely to be in the region of 3 million tons of skim milk and 100 000 tons of fats.

Degree of self-sufficiency as % of total internal consumption

	1961	1962	1963	1964	1965	1966	1967
Fats	102.4	100.0	100.1	100.1	104.3	104.3	105
Non-fat products	101.9	101.9	100.6	98.9	101.9	103.6	104

Consumption of milk products per head of the population has remained virtually stationary in recent years:

Consumption

(in kg per head)

	Liquid milk	Condensed milk	Butter	Cheese
1960	100.9	3.3	6.0	8.0
1966	96.2	4.0	6.4	9.7

The increase in overall consumption is therefore only partly due to increased consumption per head; it is mainly due to population growth.

Difficulties in the milk and milk products sector arise above all in connection with butter. Because of its special characteristics, support measures have been introduced for this product: in the first place, butter can be stored quite suc

fully and in the second place it is one way of using milk fats. Since everything points to the persistence of these conditions in the years ahead, the Commission decided to carry out a particularly thorough investigation of the butter market situation.

Up to 1964 there was a substantial degree of balance between supply and demand on the butter market. Stocks at the end of each marketing year were around 50 000 to 60 000 tons and did not present any great problem. From 1965 onwards however stocks carried forward at the end of each marketing year grew steadily. Furthermore, coinciding with the increase in deliveries of milk, there were two other developments which added to the build-up of stocks:

- (a) Consumption per head remained stationary
- (b) Production increased.

On the first point it must be remembered that it was only because butter was sold at reduced prices that consumption did not plummet. This trend can be assessed from the figures given in the table below.

Butter consumption (in kg per head)		
	1962	1966
Belgium	8.70	7.90
Germany (FR)	9.00	8.40
France	8.1	9.30
Italy	1.9	1.8
Luxembourg	11.8	9.8
The Netherlands	4.7	4.4

Overall Community production remained stationary until the end of 1964, and then increased by approximately 180 000 tons between 1964 and 1967.

Butter: Community production

(in '000 tons)

	1962	1963	1964	1965	1966	1967
	1 142	1 159	1 149	1 230	1 245	1 330

The Member States then concentrated all their efforts on exporting butter and on improving the disposal of supplies on the home market. This, however, did not prevent a considerable increase in stocks, which were nearing 150 000 tons by 1 April 1968.

Butter: Community Stocks

(in '000 tons)

Brought forward from the 1963/64 marketing year		57.1
Increase in the 1964/65 marketing year		9.8
" " " 1965/66 marketing year		25.0
" " " 1966/67 marketing year		13.8
" " " 1967/68 marketing year (estimate)		40.0
Total at 1 April 1968 (estimate)	approximately	150

At the same time there was a sharp increase in the production of skim milk powder. Total EEC production jumped from 256 000 to 834 000 tons in the period 1960-1966; production for 1967 is estimated at 1 000 000 tons. This did not cause any serious disturbance of the market, however, thanks to the developments which coincided with the increase in production, namely, the replacement of whole milk by other feeds for calves and an increase in exports to non-member countries.

2. Outlook

The second part of this Chapter deals with the outlook for the sector in the years ahead.

The Community's dairy cow population will continue to develop along the same lines as today. The yield per animal will increase in step with progress in breeding and nutrition techniques. The resultant increase in production will however be less than the increase in deliveries. Assuming that future EEC deliveries increase to the level now reached in the Netherlands and Luxembourg and that production is in the region of 72.5 million tons (1967), 65 million tons would be delivered to creameries instead of the present 53.5 million tons.

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In the years ahead, therefore, it is reasonable to expect that, even if there is no change in the dairy cow population, production will increase and this will be reflected in additional quantities of whole milk varying from 1 to 3 million tons. An outlet will have to be found for this quite considerable quantity and prospects here are not altogether gloomy. This seems to be supported by the fact that despite price increases in recent years, consumption has remained relatively stable. Even if prices rise further in the future - and this is quite possible in view of the fairly high target price of 10.30 u.a. for milk - total consumption of milk products may still increase. Assuming that the annual population increase is 0.9%, it is conceivable that total consumption could go up by 600 000 to 1 000 000 tons each year.

The prospects for marketing skim milk powder are quite favourable too. Consumption of this product as animal feed will undoubtedly increase but production is certain to outstrip consumption. The potential of the milk processing industries is such that production, which had been expanding by 50 000 tons per year up to 1964, has been increasing by 150 000 tons each year since then. Furthermore, world market prices are falling. This means that exports will be possible only if increasingly high refunds are paid.

A market will be found for sufficiently large quantities of these products in non-member countries although it will mean a financial sacrifice for the Community. Competition is growing and new competitors, particularly the countries of Eastern Europe, have been charging exceptionally low prices with a view to breaking into the market.

In the past the Commission, wishing to prevent the formation of large surpluses which could have serious economic and financial consequences, has:

- (a) Refused, on the whole, to grant aid from the EAGGF to milk drying plants;

.../...

- (b) Included a provision in the draft of the VIth Community programme (for the improvement of the structure of the dairy industry) stating that such plants will be financed in exceptional cases only;
- (c) Proposed to the Council that, as from the date of introduction of the single market for this product, liquid skim milk returned to the farm should benefit from subsidies equal to, if not higher than, those paid to skim milk powder for animal feed.

The situation on the butter market is somewhat different. If future milk surpluses continue to go into the manufacture of butter or butyric fats, the additional quantity of whole milk available for conversion into these two products will vary, depending on weather conditions, between nil and 2 million tons. This would mean that an additional quantity of butter varying between nil and 85 000 tons would be on the market each year. Calculations have shown that the most likely figure would be approximately 40 000 tons each year. It will be difficult to find outlets for this additional butter on the Community market, particularly at prices corresponding to an intervention price of roughly DM 7 per kg. We have already seen that butter consumption is stationary despite the fact that prices have not yet reached this level.

One problem arising in this connection is the relationship between the price for butter and the price for other competing fats, particularly margarine. Unless something is done about this in future the relationship between these prices is bound to lead to a further deterioration in the market position of butter. If, however, as seems probable, the Community price for margarine is aligned on the Dutch price, it will then equal a quarter of the price for butter.

We have estimated butter stocks at 1 April 1968 as being in the region of 150 000 tons; a surplus of approximately 70 000 tons is expected at the end of the 1967/68 marketing year. Assuming that:

- (1) Measures to be adopted in relation to liquid milk bring butter surpluses down by 20 000 tons as from the 1968/69 marketing year;
- (2) Surpluses increase by at least 40 000 tons each marketing year,

it can be expected that the following quantities of butter will be on hand at the end of each marketing year:

1968/69	90 000 tons
1969/70	130 000 "
1970/71	170 000 "
1971/72	210 000 "

This calculation also assumes that this trend will remain steady at least until the end of 1971/72. The basis for this assumption are, first, the poor elasticity of those types of production which are animal in origin, particularly those based on cattle, and, second, the fact that farmers are geared towards butter production.

If we consider that, in the first marketing year following the introduction of the single market, butter surpluses will amount to at least 90 000 tons, and if we assess the difficulty of placing this on the world market in all the forms now possible, it is easy to see that marketing the 150 000 tons of butter in store carried forward from previous marketing years will be a rather difficult business and that it might therefore be best if these stocks could be disposed of in three lots of 50 000 tons.

This would give the following figures:

Surplus at the end of the 1968/69 marketing year	90 000
plus: one third of stocks at 1.4.68	50 000
	<hr/>
	140 000
Surplus at the end of the 1969/70 marketing year	130 000
plus: one third of stocks at 1.4.68	50 000
	<hr/>
	180 000
Surplus at the end of the 1970/71 marketing year	170 000
plus: one third of stocks at 1.4.68	50 000
	<hr/>
	220 000
Surplus at the end of the 1971/72 marketing year	210 000
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If none of the measures proposed by the Commission is in fact adopted, the 1971/72 marketing year will open with a butter surplus of approximately 540 000 tons.

It is obvious that the cost of storing these huge butter surpluses is quite high; furthermore there is a real danger of placing butter at a disadvantage

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in the eyes of the consumer because, since stocks must be renewed the public will be getting more and more butter from cold stores. The cost of storing a single ton of butter for one year is somewhere between 425 and 450 u.a.; this produces a paradoxical situation in which storage costs for three years equal the value of the product. A simple calculation shows that the cost of storing 150 000 tons of butter for one marketing year alone amounts to more than 65 million u.a. It is unthinkable however to store butter without making an effort to find a market for it somewhere.

Apart from the structural measures which are to be taken but which cannot be expected to influence production as a whole in the short-term, attention should be devoted to all possible ways and means of reducing existing stocks. Steps taken in this direction will not, of course, solve the structural problems of the milk sector; on the other hand, structural measures on their own will not solve the problem of marketing the surpluses already formed. The following measures will therefore be taken at one and the same time:

- (1) Structural measures to reduce the possibility of butter surpluses building up in the future;
- (2) Transitional measures to make it possible to reduce existing surpluses. Measures coming under this second category are examined in this report.

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B. Review of measures to promote the marketing of milk fats in the years ahead

These can be divided into two groups. The first comprises a series of measures to increase butter sales by lowering prices; the second group of measures are intended to reduce butter production. Under the price-cutting measures it is proposed to have recourse to at least four different ways of encouraging increased consumption.

Obviously, a more varied presentation of butter on the market would make it possible to reach sections of the community who do not eat butter regularly but are potential consumers. Provision has therefore been made for the following action (estimates refer to the 1968/69 marketing year only):

1. The sale at specified times of the year of butter from cold stores at a lower price than fresh butter. This step has already been taken by certain Member States and has given good results. The operation is not without its disadvantages. Consumption of fresh butter will obviously suffer. Furthermore, these cut-price sales must not be allowed to occur too frequently or the consumer will cease to buy the fresh product. On the other hand, this measure does make it possible to sell old butter stocks or, at any rate, to renew them before they start to deteriorate.

Estimates: The sale of 75 000 tons of cold storage butter would correspond to the additional marketing of 20 000 tons of butter at a total cost of 22 500 u.a.

2. Utilization of butyric fats for cooking.

This product offered for sale at a price which would be competitive with that for edible fats from other sources should be clearly different from fresh butter to reduce the risk of substitution to a minimum. It should have the following characteristics:

- (a) Its consistency should be such as to make it difficult to spread;
- (b) It should be packed in such a way as to make it easily recognizable;
- (c) It should bear an identifying mark to distinguish it from fresh butter.

Estimates: The additional butter disposed of in this way should amount to 27 500 tons; the cost would be 43 750 u.a.

.../...

- 3. Utilization of butyric fats by certain food industries; It is expected that quite a sizeable amount of butter could be disposed of in this way. These industries could use butter rather than other fats as an ingredient in their products.

Estimates: The additional amount of butter sold should amount to 30 000 tons; the expenditure involved in ensuring that butter could be offered at a price which would compare favourably with other fats would be in the region of 43 750 u.a.

- 4. Sales of butter to specified sections of the community; These would be sections of the community who are not normally able to buy the fresh product because the price is too high. The Commission is therefore thinking in terms of selling butter at a reduced price to institutions such as boarding-schools, barracks, hospitals, and so on in an effort to dispose of a certain quantity. There are certain technical difficulties associated with such sales which mean that this operation may not be an easy one.

Estimates: The additional quantity of butter sold in this way is unlikely to exceed 10 000 tons and the cost is estimated at 15 000 u.a.

In connection with the second group of measures designed to reduce butter production, consideration is being given to the possibility of using milk powder with a specified milk-fat content in the manufacture of compound animal feedingstuffs. These products are gaining ground in animal nutrition and this has meant that every year approximately 100 000 tons of butter are produced from the butyric fats made available by the use of these milk substitutes. To profit from this growth in consumption and at the same time to prevent a parallel increase in butter production, the possibility of incorporating 6% fat in these powdered milks is being considered. This means that butyric fats will come to replace other edible fats in the manufacture of these feedingstuffs, to a certain extent at least. As for the subsidy of 150 u.a. per ton for skim milk powder for animal feed provided for in the Council's Resolution of 24 July 1966, it is thought that it may be possible to increase this in proportion to the fat content of the milk powder thus produced.

Forecasts: Assuming that 200 000 tons of powdered milk go into the manufacture of compound animal feedingstuffs, the reduction in butter surpluses should be in the region of 52 500 tons; the total cost would be 77 400 u.a.

To sum up then, we show in a single table the additional butter tonnage disposed of as a result of the adoption of the measures outlined above and the total cost involved:

Measures adopted	Tons	Cost in '000 u.a.
1) Sales at reduced prices		
Butter from cold stores	20 000	22 500
Butter for cooking	27 500	43 750
Butter for food industries	30 000	43 750
Butter for specified sections of the Community	10 000	15 000
2) Reducing production		
Incorporation of 6% fat in animal feedingstuffs	52 500	77 400
	140 000	202 400
Average cost per 1 000 tons	-	1 445

This means that the cost of disposing of 140 000 tons of butter during the 1968/69 marketing year will be an estimated 200 million u.a. Furthermore, if we refer more to the possibility of dividing existing butter stocks into three lots of 50 000 tons each, we must also consider the expenditure involved in storing the remaining 100 000 tons during the 1968/69 marketing year; this should cost a further 50 million u.a.

Expenditure on butter alone in the 1968/69 marketing year would therefore be as follows:

(a) Expenditure on disposing of 140 000 additional tons	200 million u.a.
(b) Cost of storing 100 000 tons	50 million u.a.
Total	<u>250 million u.a.</u>

Even with this expenditure all the Community is doing is selling a certain quantity of butter and storing stocks. It is expected that in subsequent marketing years, because of increased surpluses, total expenditure will be in the region of 300 million u.a. and may exceed this as from 1970/71.

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C. Counting the Cost

Having examined the expenditure arising in connection with the reduction of butter surpluses, the report goes on to consider the total burden of financing the common policy for milk and milk products. This expenditure will have to be borne by the Guarantee Section of the EAGGF once the milk regulations come into force.

On the basis of the figures given total expenditure would be in the region of 800 million u.a., but this could fluctuate slightly with the various factors which influence agriculture. Nevertheless, it is certain that the estimates in each case do give a valid indication of the extent of the expenditure involved. Measures involving financial expenditure are broken down into two groups. The first covers those introduced under Regulation No. 13/64/CEE and the second, those adopted on the basis of the Council's Resolution of July 1966.

The two groups are made up as follows:

(i) Regulation No. 13/64/CEE

(a)	Seasonal buying-in of butter	30	million	u.a.
(b)	Measures to reduce surpluses	250	"	"
(c)	Export refunds	260	"	"
	Total	540	"	"

(ii) July 1966 Resolution

(a)	Aid to skim milk for animal feed	223	million	u.a.
(b)	Aid to casein production	25	"	"
(c)	Support measures for Parmigiano cheese	12	"	"
	Total	260	"	"

The next table shows this same estimate of expenditure with some of the data used in calculating the expenditure.

.../...

Type of expenditure	Consumption Production Exports ('000 tons)	Amount of support (u.a. per 100 kg)	Expenditure (in '000 000 u.a.)
I) Aid to skim milk			
Liquid	7 500	1 375	103
Powder	800	15	120
II) Seasonal buying-in of butter	100	30	30
III) Butter disposal	-	-	250
IV) Aid to casein	40	62.50	25
V) Support measures for parmigiano cheese (milk utilized)	1 400	-	12
VI) Export refunds	4 000	6.50	260
Total			800

Total expenditure is already high, particularly when compared with 1967/68, when butter disposal measures cost something like 48 million u.a., as against the 250 million u.a. estimated for 1968/69. It is expected that expenditure will increase further in subsequent marketing years, particularly because of the formation of structural surpluses. If present production and consumption trends are maintained - and we have seen that they are unlikely to change in the short-term at least - expenditure will increase considerably and could readily amount to somewhere between 300 and 350 million u.a.

We must not forget that vast funds will be necessary to dispose of surpluses of butter, skim milk and skim milk powder.

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PROPOSALS FOR COUNCIL RESOLUTIONS SUBMITTED BY THE COMMISSION

The Council debate on the regulations which are to introduce the single market for milk and for beef and veal began in January but continued beyond the 1 April deadline. This meant that the Community had to postpone the date on which these regulations were to come into force.

Provision was therefore made for an additional period of two months during which arrangements for the 1967/68 marketing year would continue to apply. A decision on the milk and beef and veal regulations will have to be taken by 31 May 1968 at the latest.

The difficulties which came to light during the discussion of these regulations were quite considerable and much remains to be done if an effective body of common regulations is to be adopted for a sector in which there is considerable structural imbalance and where conditions and requirements vary from one country to the next.

In an attempt to speed up the discussions, the Commission submitted to the Council of Ministers at their meeting on 25-27 March 1968, a group of five draft resolutions, four dealing with milk and milk products, the fifth with beef and veal.

The four milk products resolutions dealt with:

- 1) Financing the common agricultural policy;
- 2) Increased powers for the European Parliament in budgetary matters;
- 3) General problems concerning the future of agriculture in the Community;
- 4) The target price and support measures for the 1968/69 milk year.

x

x

x

1) Financing the common agricultural policy

This resolution is based on three points:

- (i) Butter stocks existing on 1 April 1968 were formed either during the transitional period or in the period immediately preceding it. The figures given above show this clearly. Financial responsibility for disposing of these stocks should therefore be partly borne by the Member States in proportion to the quantities they hold in store.
- (ii) Expenditure involved in the indispensable disposal of these stocks can be estimated, as we have seen, at approximately 250 million u.a. for the 1968/69 marketing year if the methods suggested in the Commission's report were used.
- (iii) Receipts from taxation on edible fats of vegetable or marine origin imported or produced in the Community, on which a ceiling of 87.5 million u.a., has been placed, would reduce the overall financial burden and in particular the proportion of the expenditure to be borne by the EAGGF and shared amongst the Member States in accordance with the fixed scale of contributions.

On the basis of these considerations, the resolution provides for action:

- (a) To reduce the costs (250 million u.a.) of disposing the existing surpluses in the milk sector by 125 million u.a. This amount would be paid directly by the Member States, each of which would be responsible for a sum corresponding to the proportion of total EEC butter stocks it held on 1 April 1968.
- (b) To confirm the text of paragraph (xi) of Council Resolution 128/64/CEE on the basic principles of the common organization of markets in the fats sector. This paragraph provides, within the framework of the resolution referred to, for the "levying of a charge on edible vegetable fats and edible fats extracted from marine animals, produced in or imported into the Community". Under the Resolution receipts from this tax

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would be assigned to the Community.

This second step would involve the introduction of a tax on fats, the income from which would not be allowed to exceed 87.5 million u.a.

2. Increased powers for the European Parliament in budgetary matters

This resolution is a corollary of the previous one since the creation of financial resources for the Community should be accompanied by increased financial control by the Parliament.

The text of this Resolution states that the Council, having noted:

- (a) Its resolution 128/64/CEE on the taxation of margarine;
- (b) The Commission's proposal of 9 December 1964 on the introduction of this tax;
- (c) The opinion of the European Parliament that the Community should not be allotted funds of its own unless there were a parallel reinforcement of financial control and, since this cannot be exercised by the national Parliaments, that the relevant powers should be given to the European Parliament,

decides to follow up its earlier statement on this subject included in the minutes of the meeting of 23 December 1963. This means that the Council has agreed to turn its attention once again to this rather thorny problem and to find a solution to the question of budgetary control.

3. General problems regarding the future of agriculture in the Community

This resolution is perhaps the most important of the four because it deals with the future of agriculture in the Community at large.

The text includes a whole series of considerations which begin with the present situation in the animal breeding sector and pass on to re-examine the common agricultural policy.

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The Council stresses the extent of the imbalance on the milk-products market, the difficulties created in marketing surpluses and the financial consequences entailed. The seriousness of the present situation proves that price and market policy are not sufficient of themselves to ensure a fair return to less-favoured milk producers. It will be necessary therefore to adopt measures dealing with the structure of agriculture on the one hand and, on the other, social measures which can be adapted to conditions in various regions. Obviously the introduction of measures of this kind goes far beyond the limits of the milk problem as such because it is a matter of putting into operation a system which would, in its entirety, ensure adequate incomes and living conditions for all farmers. However, there is still a need for the early adoption of the proposed regulations for applying the single price system to the milk products and beef and veal sectors and the amount of time available for discussion is therefore necessarily short.

Having listed all these points, the text goes on to discuss the types of action which the Council proposes to take. First and foremost, it intends to introduce the single price system in the sectors concerned at the earliest possible date, and, in the second place, it means to re-examine all the problems connected with the future of agriculture, with particular reference to structural solutions in all their economic, social and regional aspects, using as a basis:

- (a) The annual report on the state of agriculture and agricultural markets in the Community, and
- (b) A memorandum which the Commission intends to submit to the Council with a view to elaborating a common approach to the problem and drafting the resultant measures in the field of policy on the structure of agriculture.

4. The target price and the intervention measures for the 1968/69 marketing year

This final resolution refers to five principles which, if agreed to by the Member States, would make it possible in practice to reach a large measure of agreement on the contents of the milk regulation. Those five points are as follows:

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- (a) Definition of the target price: The definition given in the proposed regulation on the common organization of the markets in the milk and milk products sector is abolished;
- (b) Level of the target price: A target price of 10.30 units of account per 100 kg, delivered dairy is fixed for milk with a fat content of 3.7%;
- (c) Intervention price for butter: This is fixed at 170 units of account per 100 kg;
- (d) Rebate for skim milk used for animal feed: A rebate is fixed which is equal to 1.5 units of account for 100 kg for liquid skim milk and 8.25 units of account per 100 kg for skim milk powder;
- (e) Support measures for cheese: An intervention price will be fixed for Parmigiano-Reggiano and Grana padano cheeses so as to stabilize market prices for these. The purpose of this is to give to milk producers in those areas of the Community where cheese is the most important end-product of the milk sector, the same guarantee as regards the price of milk for processing as existing intervention measures already provide for butter and skim milk. The possibility of granting aid to private stocks of these cheeses is also being considered.

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REVIEW OF A STUDY

SLAUGHTERHOUSES IN THE EEC

PART II

CONTRIBUTION TO AN ANALYSIS OF THE MOST IMPORTANT OPERATING CONDITIONS

Internal Information on Agriculture

No. 18

The first part of this survey, which appeared as No. 17 in the present series, reviewed the position of slaughterhouses in the Community and the relationship between them and livestock and meat markets. It outlined the main features of the network of slaughterhouses in the individual Member States.

The second part analyses the most important operating conditions of individual slaughterhouses from the economic point of view with reference to both deliveries of slaughter stock and meat marketing.

The survey ends with the general conclusions which can be drawn from its examination of the situation.

In selecting the location of new slaughterhouses a choice has to be made between producing and consuming areas. The survey compares the marketing network for stock with that for meat, with particular reference to transport costs for stock and meat and the technical and commercial considerations linked with choosing between the two. Apart from the question of long distances for which stock transport costs are higher - the commercial advantages arguing in favour of meat marketing are often decisive. They must however be weighed against slaughtering costs and the operating conditions of slaughterhouses.

The study therefore attempts to relate production costs to slaughterhouse capacity. Production costs fall rapidly once capacity rises to somewhere between 8 000 and 10 000 tons; similarly the utilization rate of slaughtering facilities is a decisive factor in determining the level of production costs. As was shown in Part I of the survey, the present utilization rate of slaughterhouses in the EEC is generally speaking very low, barely exceeding 30%.

However, the size of the slaughterhouse - and the livestock density of the producing area - also determines the size of the area supplying the slaughterhouse and consequently the cost of transporting animals to it. The survey concludes that transport costs are no bar to the building of large-capacity slaughterhouses in producing areas provided the stock density is sufficiently high.

Having considered all the factors which would permit of possible future localising of production and consumption, the survey discusses the elements of a programme for modernizing Community slaughterhouses.

At present the network of slaughterhouses is not up to standard; there are too many - particularly public ones; they are outdated and too many fail to meet modern sanitary requirements. Another striking feature is the increase in the number of direct-order slaughterhouses and the difficulties being experienced by public slaughterhouses.

The Community's network of slaughterhouses therefore needs to be redesigned. Any steps taken in this direction should however bear the following essential requirements in mind:

- (a) The necessary investment must be kept within bounds by avoiding overlapping;
- (b) The overall cost of slaughtering must be kept as low as possible;
- (c) The interests of producers and consumers alike must be safeguarded;
- (d) The marketing network must be improved.

This calls for co-ordinated effort at national level in the Member States. Capacity should be so planned with reference to regular and continual

.../...

slaughtering - allowing for seasonal variations - so that the utilization rate is as high as possible.

Save in exceptional cases capacity should be at least 8 000 tons of meat. If slaughterhouses were equipped with conveyor belts or continuous production systems, operations could be carried out by specialized teams. Since financing costs represent a considerable proportion of production costs, these should be kept as low as possible. Financial independence and operating autonomy should make it possible for public slaughterhouses to improve their rate of capacity utilization and thus reduce their production costs.

An improvement in capacity utilization could be achieved either by building new establishments or by combining existing ones and reducing their number. Such an improvement is particularly important for slaughterhouses attached to stock markets which frequently operate on a few days only.

The construction of slaughterhouses, and the size of these, must continue to depend on the intensity of livestock production in a given area and on whether the area is a surplus or a deficit one. In thickly populated areas with a meat surplus, it would be better to provide storage facilities and cutting-rooms attached to the meat markets rather than build new slaughterhouses.

This study may be obtained from the Directorate-General for Agriculture of the Commission of the European Communities, Directorate for Agricultural Economics and Legislation, Division "Balance Sheets, Studies and Information" (129 rue Stévin, Brussels). It is available in French and a German translation is being prepared.

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