NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

No. 4 MAY 1975

MILK PRODUCTS

Market and supply situation

Published by the Division for Agricultural Information in collaboration with the Directorate-General for Agriculture of the European Communities Commission – 200, rue de la Loi, 1040 Bruxelles

C O N T E N T S

"Milk products"[2]

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I. INTRODUCTION

Milk and milk products represent about 20% of final agricultural production in the Community.

Total world output of milk products can be estimated at 380 million metric tons, of which Community production accounts for 92 million metric tons, or almost 25%. The Community's output of milk products therefore represents a substantial share of world production.

The survey on the structure of dairy farming, carried out for the first time in the Community in December 1973, drew a clear distinction between dairy cows and others. Results showed that 25.6 million dairy cows were being reared on 2.5 million individual farms, whilst about 6 million non-dairy cows were being reared on 740 000 farms. Of the total number of farmers keeping dairy cows, two-thirds - accounting for over 26.5% of total numbers - kept less than 10 animals. Only about 45 000 farmers (including 22 100 in the United Kingdom), accounting for 13.5% of total numbers, own herds of more than 50 cows. The average size of herds in the Community is 10 animals; it varies from 5 in Italy to 62 in Scotland.

Concentration is most advanced in the milk processing sector. In 1973, the number of milk processing concerns fell to below 10 000, of which more than 50% are in Italy. During the past ten years, a total of 444 projects have been granted aid from the EAGGF (Guidance Section) totalling about 152 million u.a.

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[1] Introductory account given by Mr Theo Nebe, Directorate-General for Agriculture, Milk Products Division, in Brussels on 18 April 1975 to trainee journalists at the Training Centre for Journalists in the Agricultural and Foodstuffs Sector.

[2] See also Newsletter on the Common Agricultural Policy - No 2/1974: Stocktaking and outlook in the milk and milk products sector.

II. MILK PRODUCTION AND CONSUMPTION

(a) In 1973, the total number of dairy cows in the Community was 25.6 million, an increase of 1.4% on the previous year. Trends differed, however, from one Member State to another. Expansion was particularly marked in the Netherlands, Luxembourg and Ireland, whilst in France total dairy cow numbers have also continued to rise; it showed little further rise in Germany and the United Kingdom, however, and actually declined in Italy, Belgium and Denmark. The latest figures available point to a further slight expansion of dairy herds in the Community as a whole.

(b) The series of sharp increases in milk sales and production recorded in 1972 did not continue.

Milk production, which amounted to 92.1 million metric tons in 1973, rose by only 0.5%. It is expected to rise by 1% in 1974, to reach a production level of 93 million tons. Thus the rate of increase in output roughly corresponds to the annual increase in the Community's population, which is about 1%.

This trend results from the substantial rise in production costs, especially the cost of supplementary feedingstuffs. Income from milk has not risen to the same extent, so that the overall profitability of milk production has fallen.

In 1973, 81.5 million metric tons of milk were delivered to dairies. Except in Belgium, deliveries have continued to expand in all Member States, the growth figure for the Community as a whole being 2.3%. Available statistics suggest that a further increase will occur in 1974, bringing total tonnage to about 83 million.

The following table gives a breakdown of milk utilization in 1973:

Utilization of whole milk (%)	
Milk for domestic consumption	26.3
Butter Skimmed milk powder	37.5
Cheese	17.0
Condensed milk	2.9
Whole milk powder	2.2
Milk for feeding livestock	12.0
Miscellaneous	1.1
Total	100.0

III. PRODUCTION AND CONSUMPTION OF THE PRINCIPAL MILK PRODUCTS

(a) Milk for domestic consumption

The downtrend in both production and consumption did not continue in 1973, since total consumption was 26.5 million metric tons, 1.4% more then in 1972. A new trend has appeared in this sector, in the sense that consumption of whole milk is declining, whilst consumption of skimmed and semi-skimmed milk is rising. Cream sales are stagnant. The rise in the consumption of fresh milk products (milk and milk-based beverages, yoghourt) noted in recent years has slowed down.

For 1974, no significant change is expected in the structure of milk utilization for human consumption.

(b) Butter

Total butter production amounted to 1 733 000 metric tons in 1973. At the beginning of the year, the market situation in the Community was affected by excessively high stock levels.

The amounts on offer were swollen by imports previously contracted for, together with a further increase in production of about 50 000 tons (2.9% over the 1972 figure). At the same time, both absolute and per capita consumption continued to decline, and as a result, the butter market was in disequilibrium in 1973; however, the situation has eased since then and in 1974 production was 2% lower than in 1973. The decline in consumption recorded in previous years has been halted and in 1974 Community butter consumption once more increased, as regards both butter sold at market prices and the quantities sold under special conditions. This trend was due to lower butter prices, the granting of consumer aid in some Member States and the recent rise in the price of margarine, which has in general improved the competitive position of butter.

Exports to non-member countries should resume their normal pattern after the massive special sales - sometimes costing considerable sums - effected in 1973.

As a result stocks at the end of 1974 amounted to 150 000 metric tons, 50 000 metric tons less than at the end of 1973.

) Skimmed milk powder

Production of skimmed milk powder in 1973 amounted to 1 845 000 metric tons, an increase of 9.2% on the previous year. Community consumption in 1973 rose by about 100 000 metric tons, or 7.4% on the previous year's level, the total figure being 1 468 000 metric tons. Only about 18% of this tonnage is sold at market prices for human consumption: in respect of 72% substantial subsidies are paid to permit incorporation in animal feedingstuffs, particularly for the breeding and fattening of calves. Despite the quantities exported in 1973, stocks increased again by more than 100 000 metric tons.

As regards skimmed milk powder, the situation remained stable in 1974. Although production was approximately the same as in 1973, sales for use in animal feedingstuffs fell slightly in the Community. In 1974, exports slightly exceeded those of the previous year, since even at the end of 1974, stocks were about 100 000 metric tons more than at the end of 1973. It should be noted that public stocks amounted to 365 000 metric tons as against 166 000 metric tons at the end of 1973, while stocks held by producers, merchants and processers were correspondingly lower.

(d) Cheese

In 1973, cheese production in the Community amounted to 2 690 000 metric tons, exceeding the 1972 level by 1.5%. In 1974, production rose to about 2 800 000 metric tons.

Production and consumption of cheese are clearly no longer showing the high rates of expansion seen in preceding years. Overall cheese consumption appears to have reached a level which is unlikely to rise appreciably in the short term; per capita consumption reached 10.5 kg in 1973.

On the other hand, the trend of recent years as to the types and qualities consumed will probably continue.

(e) Whole milk powder

In 1973, the output of whole milk powder rose to 424 000 metric tons, 1.9% more than in 1972. About 60% of total production is consumed in the Community, whilst 40% is exported to non-member countries.

No appreciable change emerged in this sector in 1974; production will probably continue to rise slightly.

(f) Condensed milk

Condensed milk production further declined by about 1.3% in 1973, amounting to only 1 334 000 metric tons. Lower consumption in the Community was only partially counterbalanced by increased exports. Consumption is not expected to increase, but the outlook for sales on world markets is generally considered favourable.

(g) Casein

In 1973, Community production of casein was practically unchanged on the previous year, amounting to about 56 000 metric tons. In 1974, on the other hand, production rose strongly - especially in France. This trend is due to a decline in imports from non-member countries, since the principal countries supplying world markets have sharply reduced their output of casein whilst increasing that of skimmed milk powder, which commands higher prices.

IV. WORLD MARKET SITUATION AND INTERNATIONAL TRADE

World market

The world market for milk products in 1973 and 1974 was influenced in particular by irregular developments in the USA and New Zealand.

The US situation was characterized by a persistence of the decline in milk production, so that the US became a net importer of milk products in 1973 through increased import quotas for cheese, skimmed milk powder and - to a limited extent - butter. Following the increased demand and increased import quota "break" price, US cheese production expanded, consequently reducing production of butter and skimmed milk powder. Further special import quotas for Cheddar and skimmed milk powder were introduced in the spring of 1974. However, the market was overloaded with "American cheeses" resulting in lower market prices for cheese and consequently lower returns to milk producers. Consumption, especially that of drinking milk weakened, thus again increasing milk quantities available for butter and skimmed milk powder production. Together with increased buyings of the CCC intervention agency these events postponed further increases in import quotas planned by the US administration in early 1974.

In New Zealand droughts led in 1973/74 to sharp decreases in export availabilities so that New Zealand was unable to fulfil its special import quota for butter to the UK in 1973 and 1974 and also unable to fulfil its US import quota for skimmed milk powder in the spring of 1974. However, substantial reductions in traditional casein production made it possible for New Zealand to maintain a fairly high level of skimmed milk powder output.

In Japan milk deliveries to the manufacturing sector decreased because of a stagnant level of milk production combined with increased sales of drinking milk; the result has been reduced production of butter and skimmed milk powder. To these major events must be added the tight protein (soya) supply situation in 1973, which contributed to the stability of the skimmed milk powder market, and the special deliveries from EEC butter intervention stocks in early 1973, which eased the pressure exerted on the market by increasing stocks. Outside the EEC, butter consumption continued to decline in most countries, but at a moderate rate owing to improved price relationships between butter and margarine. Cheese consumption continued to increase, in some countries at even a high rate, partly because of increasing meat prices.

For milk powder and other preserved products changes in trade were mainly due to changes in the supply and stock situation rather than to changes in consumption.

EEC exports

In total EEC butter exports - including food aid and special measures - increased from 79 000 tons in 1972 to 410 000 tons in 1973, thereby increasing the EEC's share of world trade from about 20% to about 61%. However, "normal" exports of butter increased from "only" 56 000 tons in 1972 to 86 000 tons in 1973, or by 54%. In 1974 butter exports amounted to 130 000 tons.

Total EEC cheese exports increased in 1973 by 24 000 tons or 18% whereby the Community share of world trade increased to 37% from 34% in 1972. EEC exports of skimmed milk powder amounted in 1973 to 266 000 metric tons being 170 000 metric tons or 186% more than in 1972. Excluding food aid deliveries "normal" exports increased by 180 000 metric tons reflecting mainly the price development and importing countries' expectations regarding future supply. Exports of casein remained stable in 1973 compared with 1972, amounting to nearly 12 000 metric tons. After several years of decreasing exports of condensed milk the Community of Nine in 1973 increased its exports to non-member countries by 80 000 metric tons and by 70 000 metric tons in 1974.

Community imports

EEC imports of butter from non-member countries totalled in 1973 about 160 000 metric tons; New Zealand delivered about 130 000 tons to the UK or 35 000 tons less than the special quota provided for in Protocol No 18 of the Treaty of Accession. In 1974 imports from New Zealand amounted to 117 000 metric tons.

UK cheese imports from New Zealand in 1973 amounted to 46 000 metric tons or 23 000 metric tons less than the quota. EEC imports of Emmentaler cheese, etc., bound under GATT, continued to increase in 1973 and 1974.

V. OUTLOOK FOR 1975/76

(a) Community

Milk production in 1975 and 1976 will probably expand by 1 to 2% annually. Cow numbers will continue to increase moderately, however, depending on a stabilization of the meat market, whereas milk yield per cow, on a short-term basis, may tend to stabilize or decrease due to higher prices of concentrates. Still, the moderate increases in total EEC milk production and deliveries can lead to big increases of production of individual milk products. As sales outlets for cheese on several export markets may decline due to changes in national import policies, EEC production of butter and skimmed milk powder may again, in 1975 and/or 1976, tend to exceed consumption and export needs, thereby leading to further accumulations of stocks[1]. An important factor in determining the degree of stock accumulation is the extent to which subsidies on butter consumption and on the use of skimmed milk/skimmed milk powder in feedingstuffs are maintained.

(b) World market

In the USA - for structural reasons - milk production will probably tend to stagnate or decrease in the long term, whereas in the short term it may be difficult to stabilize production by raising internal prices because it is substantially hampered by inflation and high feed prices partly caused by disappointing harvest results in 1974. Price increases and inflation effects in general may also - in the short run - tend to reduce consumption, thereby offsetting to some extent the expected increase in import requirements. On a long-term basis, however, the structural development of milk production may necessitate increased imports of butter and skimmed milk powder. New Zealand is expected to regain its normal production capacity thereby enabling it to increase in particular its butter and skimmed milk powder production. Australia has increased considerably its technical milk powder capacity. In Japan stagnating milk production and rapid increases in liquid milk consumption may lead to further increases in imports of butter and skimmed milk powder. As regards cheese, several importing countries have announced their intention to reduce imports in order to support local production.

In total, without considering the non-commercial sector (food aid etc.) it seems that world supplies of skimmed milk powder and butter in

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[1] Cf Annex 1: Development of stocks of butter and skimmed milk powder in April 1975.

particular in 1975 and 1976 will be at least sufficient to cover commercial consumption, therefore limiting the possibilities of further market price increases for these products.

VI. EAGGF EXPENDITURE

On the basis of the prices and aid measures in force as from 3 March 1975 the cost of financing the common milk policy for 1975 will amount to about 1.5 milliard u.a. This expenditure will be necessary to finance the measures provided for under the common organization of the market in milk.

The increase of 6% in the producer price of milk from 3 March 1975 has resulted, after a partial change in aid, in additional expenditure of between 50 and 100 million u.a. per year.

The calculation is based upon data for 1975 available to the Commission when it prepared the agricultural report. Changes in prices and quantities may lead during the closing months of the year to either an increase or a decrease in the cost of the Common Agricultural Policy.

VII. SUMMARY

The rapid increase in milk production during 1972 was not maintained in 1973 and 1974. In 1973 milk production only rose by 0.5% over the preceding year. According to the provisional figures for 1974 production increased by 1%. This is due basically to increases in prices of production factors and in particular in prices of feedingstuffs. The income of the dairy industry did not increase in direct proportion and as a result the profitability of dairy production has fallen. According to the most recent information overall consumption of milk and milk products within the Community will continue to stagnate somewhat. Consumption of liquid milk is decreasing, while the downward trend in butter consumption, apparent during previous years, has been checked. A reduction in the Community butter price, the introduction of consumer subsidies in some Member States and the increase in margarine prices have had the overall effect of improving the market position of butter so that overall butter consumption in the Community in 1974 was higher than in the previous year. In the United Kingdom, in particular, where national consumer subsidies were granted from the beginning of 1974, consumption of butter, cheese and liquid milk was stimulated. Butter consumption increased by about 20 000 metric tons, cheese consumption by perhaps 16 000 metric tons and consumption of liquid milk by more than 230 000 metric tons. The cost to the United Kingdom budget has been estimated at about 300 million u.a. over a full year. Since the United Kingdom is one of the three major consumers of milk products within the Community, these increases in consumption have somewhat eased the butter and skimmed milk powder stock position in the Community of Nine. If these subsidies had not existed, market prices in the United Kingdom would have increased and instead of an increase in consumption a fall would have been recorded with a corresponding increase in stocks. Sales of skimmed milk powder within the Community have not increased to any significant degree during recent years. Only in respect of cheese and some fresh milk products has consumption continued to increase. The situation on the Community butter market has eased somewhat. In 1974 production was no higher than in 1973.

Exports to non-member countries will not exceed the normal level, since butter stocks were reduced in 1973 and 1974 as a result of special measures. In 1975 no changes are expected in the overall situation as regards skimmed milk powder. Production and exports will be similar to those of 1974, skimmed milk consumption in the form of feedingstuffs will be unchanged and as a result stocks (both public and private) at the end of 1975 will be only marginally higher than those of the previous year. Nevertheless there are plans for increases in public stocks and a reduction in private stocks kept by producers, merchants and processors.

ANNEX I

Movement of butter and skimmed milk powder stocks

Situation in April 1975

(in 1 000 t)

Dates	Butter			Skimmed milk powder
	Public	Private	Total	Public
3 April 1975	46.3	0.4	46.7	439.4
10 April 1975	49.3	7.5	56.8	458.8
24 April 1975	56.2	21.1	77.3	492.0
30 April 1975*	60.0	25.0	85.0	500.0

*Provisional.

ANNEX II

The European Economic Community's share of international trade in certain milk products

1973 and 1974

I. EXPORTS

Products		in 1 000 t 1973	1974[2]
Butter/ Butteroil	World[1]	676	400
	Eur. 9[1]	410	162
	%	60.7	40.5
Cheese	World	414	480
	Eur. 9	154	185
	%	37.2	44.0
Skimmed milk powder	World[1]	727	740
	Eur. 9[1]	266	313
	%	36.6	42.3
Whole milk powder	World	305	300
	Eur. 9	204	193
	%	66.9	64.3
Condensed milk	World	491	520
	Eur. 9	432	455
	%	88.0	87.5
Casein	World	96	90
	Eur. 9	12	21
	%	12.5	23.3

II. IMPORTS

Products		in 1 000 t	
		1973	1974[2]
Butter/ Butteroil	World[1]	676	400
	Eur. 9	159	132
	%	23.5	33.0
Cheese	World	414	420
	Eur. 9	127	135
	%	30.7	32.1
Casein	World	96	90
	Eur. 9	25	24
	%	26.0	26.7

[1] Including food aid.

[2] Provisional.

Source: EEC Commission, Directorate-General for Agriculture.

ANNEX III

Intra-Community trade in certain milk products

1972-1974

Products	in 1 000 t		
	1972[1]	1973	1974[2]
Butter	261	402	514
Cheese	409	436	498
Skimmed milk powder[3]	390	575	369
Powdered whole milk	22	34	48
Condensed milk	107	132	138
Casein	25	32	-

[1]Trade between the Nine before the accession of Denmark, Ireland and the United Kingdom.

[2]Provisional.

[3]Including butter-milk and semi-skimmed milk powder.

Source: EEC Commission