



connect to the world of dairy

EDA Statement to the Council of Ministers of Agriculture 27 & 28 June 2016, Luxembourg

Key Messages

The growth of the EU dairy sector represents a real opportunity for the EU agriculture sector. The mid and long term perspectives for dairy remain very positive at global level and we share the EU Commission's favourable mid – and long term dairy outlook, which is based on the future global demand development¹.

For over a decade, the Union has shaped the political framework to allow the EU dairy to seize these opportunities. The European dairy sector, the milk producers and their processing companies, have prepared for the new era in our sector.

Price volatility is a normal facet of a properly functioning agricultural market. The dairy sector has been subjected to extreme price volatility since 2007, with the EU dairy markets being exposed to the world market. This extreme volatility occurred even under the quota system.

Even if we have experienced an unusual long and a dramatic downturn of the dairy markets, we should not reverse course over a temporary market setback that will inevitably correct itself. First indications for a market recovery are already on the horizon.

15 months after the end of the milk quota regime, this is not the time to consider a way of reintroducing production constraints because of temporary difficulties caused by many and mainly external factors.

¹ DG Agriculture and Rural development report of December 2015, EU Agricultural Outlook - Prospects for EU agricultural markets and income 2015-2025. See: http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2015/fullrep_en.pdf



Benefits of Growth

Growth of the EU dairy sector will contribute across Europe to sustaining the rural economy and maintaining employment in the countryside² whilst also benefiting the wider EU economy.

It will also enable the EU dairy sector to make a major contribution to both European and global food security. The expected increase in world population and the expected change in food consumption habits in wide parts of the world will seriously increase demands on global agriculture and the EU needs to make major contribution towards meeting this challenge.

The environmental footprint of EU dairy farming means that Europe is ideally suited to meet the world's growing demand for dairy products in a sustainable way. The environmental footprint associated with EU dairy production has to take into consideration the high nutrient richness³ of milk and dairy⁴.

Analysis of the Current Market Situation

The current market situation is a temporary downturn. Without any doubt, the market depression since mid-2014 is an unusual long and an extremely harsh one.

It is the result of an exceptional uplift in EU production caused by the end of production constraints coinciding with a slowdown in global demand growth caused by the moderation in Chinese buying and the Russian import ban.

The market is not broken and price signals are taking effect. The latest figures for Germany, France and the UK show milk production falling below last year. Global demand has stabilised and we see positive signs on the price development.

The market will rebalance itself.

General Criticism of Supply Management

The majority of the EU dairy sector is not supportive of supply management, especially in those countries where farmers have waited for a generation for the opportunity to escape quotas. Having embarked upon a policy of market orientation for the dairy sector the EU should not reverse its policy position after just 15 months.

Trying to cut production would again hand over the growth in the world market to the EU's competitors and prevent the EU dairy industry from reaching its potential. Any action by the Union to manage milk supply will most probably be too late to be beneficial and will most likely compound the price cycle instead of dampening it.

² EP report of 22 April 2016, Research for AGRI Committee - The role of the EU's Common Agricultural Policy in creating rural jobs. See: [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/573418/IPOL_STU\(2016\)573418_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/573418/IPOL_STU(2016)573418_EN.pdf)

³ See: <http://www.milknutritiousbynature.eu/>

⁴ EDA Nutrition & Sustainability Fact Sheet - The carbon footprint and nutritional value of dairy products. See: http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/Nutrition_Factsheets/EDA_Factsheet_on_Nutrition_Sustainability_May_2016.pdf



Price Volatility and Market Management

After the well reflected and founded policy decisions of the European co-legislators to redirect the Common Agricultural Policy and its dairy part towards more market orientation, it is no longer possible to fully reconstruct market management for the dairy sector to protect it from price volatility. The necessary component parts are no longer available.

Policymakers did understand that it was not milk quotas that brought price stability to the EU dairy sector, but rather export refunds which are now abolished under WTO commitment. The dairy sector has been experiencing serious price volatility since 2007, whereas quotas were only abolished in 2015.

Price volatility has come from the EU's exposure to the world market because of the 11% of milk volume that is exported out of the EU. Export refunds used to insulate the EU from the price difference between the EU and the world market. With the agreement of the EU, in December 2015 export refunds have been abolished at global level by the WTO.

If the EU wants to use supply management to manage prices then it must cut EU production to counterbalance any growth from its competitors on the world market. That means leaving all future growth in the world market to our competitors. This is one of many reasons why supply management was rejected by the report commissioned by DG Agriculture from Ernst and Young⁵ analysing future developments in the dairy sector.

⁵ Analysis on the future developments in the dairy sector, External study prepared by Ernst & Young for the EC Agriculture and Rural Development Directorate-General, September 2013. See: http://ec.europa.eu/agriculture/events/2013/milk-conference/ernst-and-young-report_en.pdf



EDA Policy Recommendations

Policy coherence and the role of European Agriculture and Food production

The European food sector produces valuable foods in a very complex legislative environment, and needs to comply with a broad variety of rules, ranging from agricultural policy framework, to environmental requirements, hygiene conditions, technical and labelling restrictions to the overall context of climate and energy efficiency.

It would be important that the ministers reinforce their support for the European food production assuring nutrition security⁶ and further help to strive to a coherent policy context, allowing to keep burden for the sector in a reasonable amount.

Short-Term Market Management

Intervention remains the most effective instrument for protecting dairy farmers from the effects of extreme downward price volatility. Intervention is also a tool which essentially fits into the market orientation approach.

Tendering procedures should not be introduced as they will create the expectation amongst buyers of a further fall in prices.

Single Market and the role of dairy in different Union's policies

The EU must protect the integrity of the single market from initiatives that effectively seek to renationalise our common agricultural policy and/or our harmonised food policy. These national regulatory proposals are counterproductive to the good functioning of the internal market. A coherent policy for dairy has to translate into the acknowledgement of our sector's specificities and a support throughout all European policies.

It is the Union that is called to:

- Promote the nutritional benefits of milk and dairy in the Union⁷ and
- Reconsider to allow milk and dairy products to claim on package its benefits to the consumer
- Ensure consistent protection of dairy terms, our common product standards / definitions and our geographical indications⁸
- Maintain an effective EU school milk scheme⁹
- Avoid mandatory country of origin labelling¹⁰
- Facilitate our export activities, for instance by establishing a single intra-trade certificate
- Facilitate the use of animal by-products and re-use of water, as examples for a more circular economy

⁶ As done by the European Council on the overall climate and energy framework in Oct 2014. See: <http://data.consilium.europa.eu/doc/document/ST-169-2014-INIT/en/pdf>

⁷ EDA Nutrition Fact Sheet - Health benefits and nutritional value of dairy. See: http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/Nutrition_Factsheets/EDA_Nutrition_Fact_Sheet_-_HEALTH_BENEFITS_AND_NUTRITION.pdf

⁸ EDA Statement: What is milk? - Or the story of dairy protected terms. See: <http://eda.euromilk.org/publications/read/article/what-is-milk-or-the-story-of-dairy-protected-terms.html>

⁹ EDA Statement on the progress of the New European School Food Scheme 2015. See: <http://eda.euromilk.org/publications/archive/read/article/eda-statement-on-the-progress-of-the-new-european-school-food-scheme-2015.html>

¹⁰ EDA Statement on facts versus myths on Mandatory Origin Labelling. See: http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/EDA_Position_papers_-_Fact_Sheets/Other_Fact_Sheets/2015_05_07_EDA_statement_on_facts_versus_myths_on_mandat.pdf



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Farming – More Than Securing the European Milk Supply

Farmers need to be given the tools helping them to adapt to greater market orientation, enabling to cope with price volatility by building greater resilience into their businesses.

Over the past years, the milk and dairy processing companies, both private and cooperative dairies, across Europe have worked together with their milk suppliers to analyse the future production potential of their farmers. This is why milk and dairy producers have invested heavily over the past years in modernizing and adapting their processing sites.

The tools made available by the so-called Milk Package (the setting up of Producer Organisations (PO) and associations of POs, further specification of the contractual / statutory relationship between the dairy partners) have helped to improve the translation of the market needs within the dairy partnership. With the new set up of the Milk Market Observatory (MMO) the EU Commission has established a valuable tool for all market partners to be informed on quite recent market developments.

Milk and dairy is the most important part of European Agriculture, present in all EU Member States. It is evident that especially in so called less favourable areas (utmost areas and mountainous regions) dairy farmers and their processing partners are the economic backbone and the industrial basis for rural communities and areas.

The specificities of the dairy sector, especially in those areas fully, justifies additional accompanying policy measures within the second pillar of the CAP. Such tools can be foreseen in Rural Development Programs to help farmers in the EU and especially in least favoured areas.

Support for our External Dairy Ambition

The European Commission needs to focus its efforts on creating greater opportunities for export and maximising the EU competitive position.

To benefit the dairy sector Free Trade Agreements (FTA) should focus on markets with sizeable consumer markets, positive consumption trends and rising incomes. New Zealand does not meet these basic criteria.

The EU needs to match the performance of its competitors in negotiating FTAs. The tariff reductions negotiated by the EU competitors with third countries place EU dairy product at a disadvantage in many markets.

In this context the 'diplomatic offensive' of EU Commissioner Phil Hogan is an outstanding example of a result driven and added value focused initiative.