

– European Milk Board (EMB) Position Paper –
on the Committee of the Region’s Opinion
on the Future of the Dairy Sector’ (CoR 642 /2015)

On 16th April 2015, the Committee of Regions (CoR) adopted an own-initiative opinion¹ on the future of the European dairy sector. The rapporteur in charge and President of the Auvergne Regional Council René Souchon, together with an overwhelming majority of CoR members, called for a new type of regulation to follow up on the milk quota system abolished since 1st April 2015.

The Committee of the Regions' opinion calls in particular for:

- ✓ *Measures to secure an income to all producers*
- ✓ *Producer organisations with greater negotiating power*
- ✓ *Improving the workings of the European Milk Market Observatory*
- ✓ *Assess the Market Responsibility Programme put forward by the EMB as to its feasibility*
- ✓ *Expanding the use of contracts to cooperatives to cover the entire dairy industry.*

The European Milk Board (EMB) strongly welcomes the CoR’s continuous work and debate on the future of the dairy sector. The EMB believes the newly issued opinion provides valuable input for EU policies and urges EU institutions to take into account regional and local representatives’ forecasts and recommendations. Initially, Members of the European Parliament should take into consideration the CoR’s proposals when adopting their own initiative Report on the prospects for the EU dairy sector (2014/2146(INI), rapporteur: James Nicholson). The EMB further invites Commission and Council to initiate necessary measures at EU level.

The EU assembly warns that since 1st April the EU does not dispose of any effective instruments for curbing fluctuations in prices paid to milk producers and for preventing a milk price collapse. According to the opinion, even the Commission’s ability to predict market perturbations currently remains questionable. As for the **Market Responsibility Programme** put forward by the EMB, the Assembly regards the concept as “a cheap and flexible proposal“ that should be assessed by the competent institutions as to its feasibility. CoR members further criticise the unnecessary linking of EU farm-gate prices for milk to world market prices.

¹ <https://toad.cor.europa.eu/corwipdetail.aspx?folderpath=NAT-VI%2f001&id=23275>

In the following, we are highlighting in detail the core elements of the CoR's own initiative opinion.

Developments in the dairy products market

- ✓ *Paragraph 3. The Committee of Regions notes that forecasts for the first half of 2015 predict a **sharp fall in prices** and dairy product stocks that could exceed 2009 levels, with considerable disparities between and sometimes even within Member States.*

Implementation of the 'Milk Package'

- ✓ *Paragraph 4. The Committee of Regions notes in the Commission's report that the **use of contracts** is still negligible, which makes it difficult to rebalance the relationship in the producers' favour. Cooperatives, which account for more than 60% of milk in Europe, were exempted from contracting and production controls, as they announced beforehand that they would collect all milk from their member producers. This severely limits the scope of the measures contained within the Milk Package.*
- ✓ *Paragraph 7. The Committee of Regions notes that specific measures (which were not set out in the Milk Package), adopted in response to the **Russian embargo**, have clearly proved to be inadequate, in view of the losses incurred since August 2014.*

Short-term impact on dairy production in the EU

- ✓ *Paragraph 11. The Committee of Regions notes that this analysis² ('Prospects for EU agricultural markets and income 2014-2024', European Commission 2014) acknowledges the increasingly unequal distribution of added value (in favour of processors) along the dairy **supply chain**.*
- ✓ *Paragraph 12. The Committee of Regions notes that it is widely recognised that abolishing quotas will lead to a greater concentration of production on large farms and in certain regions of the EU.*
- ✓ *Paragraph 13. The Committee of Regions is of the opinion that the EU does not have **operational tools** capable of limiting the volatility of farmgate milk prices.*
- ✓ *Paragraph 14. The Committee of Regions also notes that a large proportion of recent **investment** in the European dairy sector focuses more on drying towers for powdered milk than on transforming milk into products with a high added value –*

² http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2014/fullrep_en.pdf

such as cheese (50% for powders in comparison with 20% for cheese).

✓ Paragraph 15. The Committee of Regions is of the opinion that concentrating **production in larger farms** does not in itself guarantee efficiency or income, as the Danish example demonstrates.

Territorial impact

✓ Paragraph 16. The Committee of Regions notes that, for the post-quota period, a number of studies³ have confirmed the concentration of dairy production in the most productive areas with the highest dairy production levels and the lowest collection costs and the contraction or **abandonment of milk production** in regions deemed to be disadvantaged or vulnerable. Points out that in these regions – whether they be remote, upland or outermost regions – dairy production provides an economic activity that is difficult to replace and that also plays an important social and environmental role.

✓ Paragraph 18. The Committee of Regions In particular, the Committee regrets the lack of specific studies of regions where dairy production is not only crucial for creating and maintaining employment but also provides a **strategic lever** for other economic sectors, such as tourism. These cases are rarely reported in terms of the number of farms and local jobs, and never in terms of their contribution to public goods (water quality and landscape, biodiversity, product quality, green tourism and regional markets etc.) or their contribution to other sectors of the economy. (Paragraph 18)

✓ Paragraph 21. The Committee of Regions highlights the fact that existing safety net measures such as public intervention and private storage aid are not suitable tools to address persistent volatility or **crisis in the milk sector**, which is worsened by the Russian embargo and is hitting the Baltic States and Finland the hardest.

Medium-term post-quota prospects

✓ Paragraph 22. The Committee of notes that despite an end to quotas, the latest **forecasts** published by the European Commission show a limited increase in European production, due in particular to environmental constraints, which are increasingly acute in some Member States. However, the production increase of 2014 demonstrates that a favourable milk price combined with a good feed year can result in a considerable and completely unforeseen surplus of milk.

³ Smooth phasing out of the milk quotas in the European Union. Study drawn up by Progress Consulting and Living Prospects for the Committee of the Regions, November 2014.

- ✓ Paragraph 24. The Committee of Regions considers such volatility, and the huge **disruption and uncertainty** that it causes for the milk and dairy sector in the EU, to be incompatible with significant investment in farms and with new producers going into business. (...).
- ✓ Paragraph 27. The Committee of Regions considers it unacceptable that farmgate milk prices in Europe should be so closely linked to **global prices**, given that 90% of EU produce is destined for sale on the European market.

Commercial agreements currently under discussion

- ✓ Paragraph 29. The Committee of Regions notes that the major risk to European dairy farming and to the consumer deriving from these (free trade and regional trade) agreements will come from the **lowering of quality and health standards** for Europeans. The non-recognition of PDO status called for by the dairy industry also poses a risk.
- ✓ Paragraph 31. The Committee of Regions notes that the EU is in the process of concluding an Economic Partnership Agreement with West Africa, which aims to abolish customs duties with this group of countries on at least 75% of its exports, including powdered milk. However, strong EU exports will undermine the **development of dairy farming** and small dairies in those countries and accelerate the migration of the rural population to urban areas and to Europe.

Policy recommendations

Make full use of the tools available at European level

- ✓ Paragraph 35. The Committee of Regions notes that for the countries that decided to make milk contracts compulsory the establishment of producers' organisations has not produced the intended results, as processors have continued to negotiate directly with producers by imposing very short contracts and no milk price guarantee. The Committee would therefore propose that priority be given to the establishment of **local and regional producer organisations**, which are not dependent on a single dairy and which would benefit from much greater negotiating power, to take the place of direct producer-dairy contracts, along the lines of the system operating in Quebec.
- ✓ Paragraph 36. The Committee of Regions considers it vital to strengthen the **role of producers' organisations** so that they play a clear economic role in managing prices and supply.

- ✓ Paragraph 40. The Committee of proposes prohibiting the **marketing sector** from using practices that lead to the downgrading of milk and dairy products, so that they cannot be used as loss leaders in its marketing policies.
- ✓ Paragraph 41. The Committee of Regions recommends improving the operation of the European Milk Market Observatory and putting in place the necessary resources for this observatory to become a genuine steering mechanism, and not just a tool for post hoc observation. To this end, the European Milk Market Observatory should have an **early-warning system for emerging market crises**. For this reason, it is vital for the observatory to produce monthly data on a sub-Member-State scale, to take account of differences in circumstances between the European regions. The Commission should pass on the early warnings to the Member States and stakeholders and immediately take all appropriate measures.

Examples of tools available outside the European Union

- ✓ Paragraph 58. The Committee of notes that in Canada, adjustments of internal market production and milk price indexation are based on the **actual cost of production** rather than on global prices. This results in significantly higher and more stable milk prices than in Europe. This supply control mechanism relies on a producers' organisation based in a single marketing office in each province.
- ✓ Paragraph 59. The Committee of Regions suggests that the Commission build on these **models** as it rethinks the type of support and the system of structuring dairy producer organisations by large production area.

Proposals at European level

- ✓ Paragraph 60. The Committee of Regions notes that the European Parliament's Agricultural Committee had adopted a compromise amendment to the **Dantin report** (Single CMO) at its meeting on 23 and 24 January 2013, regarding a provision that established support for producers who voluntarily reduce their production in the event of a serious crisis.
- ✓ Paragraph 62. The Committee of Regions notes that the **Market Responsibility Programme** put forward by the European Milk Board (to be applied when the milk market is threatened by imbalance) is a cheap and flexible proposal that should be examined and assessed as to its feasibility and effectiveness by taking 2014 as the test year.

- ✓ *Paragraph 64. The Committee of Regions wonders, in particular, about the possibilities offered by the **Single CMO Regulation**, mainly Articles 219, 221 and 222, in terms of implementing this type of proposal.*

Conclusion

- ✓ *Paragraph 65. The Committee of notes that in many Member States and regions, dairy production is an essential pillar of the regional economy and of agricultural added value. The processing of milk into a plethora of cheeses, following millennia-old traditions specific to each EU country and region, makes a crucial contribution to **the identity of the regions**, and contributes to the positive image of the European agri-food industry in the world. Moreover, the cheese industry helps keep employment in rural areas, protects the landscape and limits the loss of farmland brought about by urbanisation.*