

06.09.2009

The European Commission is doing everything to ...

The Commission's report on the milk market acknowledges the problem of volumes but draws no conclusions for removing the oversupply

"The European Commission will continue to do everything in its power to support the milk producers in the EU and to stabilise the milk market." This is the noble claim at the beginning of the European Commission's press release on its report on the "situation in the milk market in 2009", which it published on 22 July.

The European Commission's explanation for the livelihood-threatening collapse in prices paid to milk producers in Europe since early/mid-2008 is that demand for milk and dairy produce has fallen, both worldwide and in the EU: "The drop in demand in the EU and the price slump on the world market have had a direct impact on market prices in the EU. As a consequence, milk prices are now around the 21-cents-a-litre mark and in some member states even lower", the Commission says.

The world market

In its working paper on the report, the Commission explains what caused the "price collapse on the world market" after the price peak in 2007: "Whereas production rose, demand on the world market fell". So for the international market the Brussels authority recognises the interplay between supply and demand in determining prices.

The Commission attributes the growing world supply to increasing milk production in New Zealand, Australia, Argentina, Brazil, and "until recently in the USA" as well. In the EU 27 on the other hand, 0.9% less milk was produced in the 2008/09 (1.4.-31.3.) quota year.

The yardstick the Commission cites for lower world demand is world exports, i.e. the third-country exports of all the world's nations. For cheese, of which the EU is the world's largest exporter, it says world exports in 2008 fell by 7.8% compared to the previous year, and in the first quarter of 2009 by 12.3%. The Commission says that the world trade with third countries in skimmed milk and full-milk powder rose in 2008, but powder exports fell in the first three months of 2009.

The EU market

The European Commission uses different arguments for the EU market than for the world market. For the EU its sole explanation for the price collapse is the drop in demand. It suggests that supply could not be the problem because milk production in the EU was down 0.9% in the 2008/09 quota year. The Commission's primary concern though is to rule out any connection between the past quota increase and the price collapse. Because, it says, across the EU supply fell short of the quota by 4.2 % in the quota year.

The Commission knows like everybody else that it is not down to the absolute level of just one factor, but to the relationship between supply and demand.

The Commission does not quote figures for the development of demand in the EU in 2008, only for the first four months of 2009. From decline in the production of fresh produce (between 0.8 and 2.5 % down) and cheese (-2.3%), it infers a corresponding drop in demand. Since over 70% of milk in the EU goes into fresh produce and cheese, the decreases in demand in these segments are significant for the EU milk market, so the Commission says.

It is a fact that demand within the EU has manifestly fallen more than milk production has. Together with declines in export, that produces a surplus of supply – although milk production has dropped and although across the EU supply fell short of the quotas by 4.2 %. In its report the Commission makes no explicit statement on the oversupply. It does, however, put the volume of milk bought up and stockpiled under the state intervention up until mid-July 2009 as butter (81,900 t) and skimmed milk powder (203,000 t) at a total of 2.9% of EU milk production. According to the Commission, milk production in the EU is on the rise again, up in May 2009 by 0.5%. And the Commission intends to continue the intervention until well into 2010, i.e. include further volumes in the intervention.

The Commission's proposals

As the Commission proposes both persisting with the intervention beyond the timeframe and scope actually planned and continuing with export refunds, it is obvious that the Commission is not expecting market demand in the EU and worldwide to rise in the very near future.

That would actually give grounds for proposing measures aimed at reducing milk production effectively, so that volumes there is no demand for are not produced at all.

But as far as reducing supply is concerned, the Commission's report contains only proposals the member states could

implement individually. The Commission categorically rejects an EU-wide approach on the supply side. It rules out “measures like cutting the quotas by 5% or freezing the rise in quotas” because they would run counter to the result of the Health Check of November 2008. What is more, the Commission feels that “given the legitimate expectations of the producers” (protection of legitimate expectation) these measures could not be implemented until the next quota year from 1.4.2010, and so would not have “any immediate effect”.

On the other hand, the “most direct way to reduce supply” the Commission points up is slaughtering dairy cattle, to prevent production before it starts. However, the Commission rejects the measure because that would be “hard to justify” to taxpayers

That leaves only one option for reducing volumes whose implementation the Commission intends to study: it wants to allow the members states to impose a super-levy on every milk producer supplying in excess of his or her individual farm quota, even if the national quota is not exceeded. In the end that is only expressly legitimising what France has been practising for years. And it is a nod to the EU member states like Germany that are calling on the Commission to freeze the rise in quotas to first exhaust their national possibilities for regulating quotas more rigorously.

Indeed the Commission is adamant that it will not retract any single increase in quotas on EU level or suspend them only for a year. It rejects all these demands. In its “concluding remarks” the Commission therefore writes that “we rule out changes to the policy for the milk sector that are based on short-term problems”. That may well be in keeping with the resolutions passed not by the European Commission but by the ministers and governments of the EU in Brussels. However, it blatantly contradicts the first sentence of the Commission’s own press release on the Milk Report that everything will be done to support the milk producers.

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