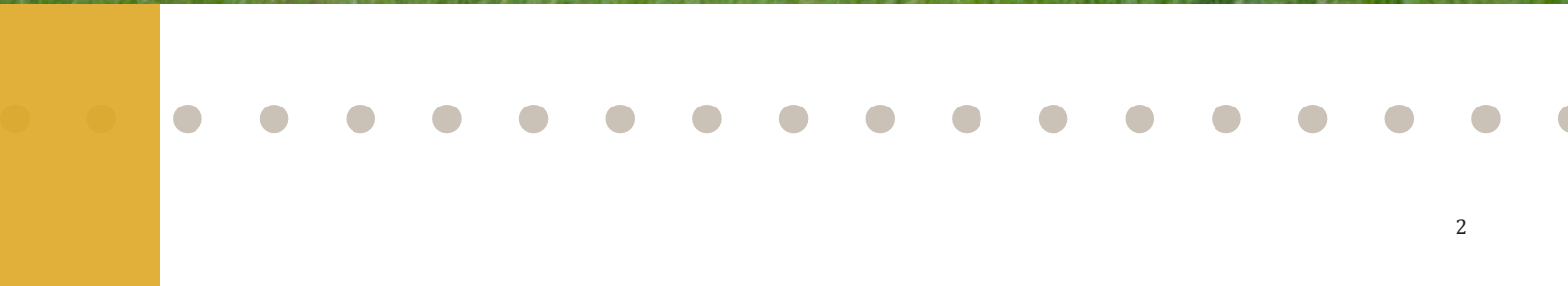
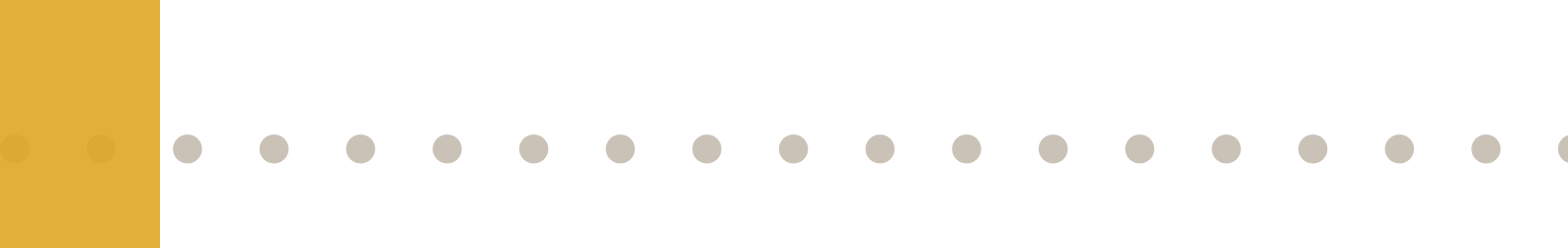


Stocktake of EU Dairy Policy post 2015





◆ Introduction

Copa-Cogeca believes that European dairy policy should ensure that the following three strategic objectives are met: mitigate the effects of extreme volatility, a better income for milk producers and ensuring dairy production is carried out across the entire European Union with the aim of maintaining vibrant rural areas and improving the competitiveness of farms.

The EU dairy market balance depends on internal factors but it is very much influenced by global supply and demand. Given the increasing world demand for dairy products, it is important to gain access to emerging markets and improve our access to countries where we already export in order to benefit from it. Certain bilateral trade negotiations (EU-USA, EU-Canada) represent strategic opportunities for EU exporters of dairy products.

Today, following the recent CAP reform decision, several tools which help mitigate the effects of extreme market volatility, such as market management instruments and tools against market disturbances are maintained. Other tools aim to guarantee better revenue for milk producers, such as the 'milk package' and to ensure that milk production is carried out throughout the entire EU such as LFA support, coupled support in mountainous regions. In addition, the role of dairy cooperatives in reducing the volatility needs to be recognized.

Furthermore, the stability of milk producers' incomes in the context of extreme market volatility also depends on direct payments as they ensure a minimum revenue for milk producers allowing them plan their investment decisions on long term. Given the future CAP budget reductions, including for direct payments, it will be more essential than ever that future dairy policy ensures that milk producers can secure sustainable levels of incomes from the market place so that they can continue to develop their businesses.

Future European dairy policy must also promote, encourage and support investments in productivity and competitiveness at farm level to help farmers cope with green growth.

Moreover, since milk production occurs in every Member State with a positive impact on rural areas including less favoured areas, milk producers need to have all the conditions in place for milk production, taking into account the high costs in these areas, in order to have a balanced and sustainable development of these regions. Dairy cooperatives play an important role in dairy production in general and a strategic role in less favoured areas which are more vulnerable from an economic and social point of view.

Extreme market volatility and its impact on maintaining production capacity

◆ Secure existing market measures

In a context of extreme market volatility, it is vital to secure existing market measures such as **public intervention, private storage and export refunds**.

Public intervention and public storage have proven to be cost-effective tools. They need to be adapted in order to be made more efficient. Future dairy policy may need to provide for an increase in the intervention buying-in price levels taking into account that production costs have increased considerably, so that milk producers are able to maintain their production capacity.

In our opinion, a better efficiency of public intervention could be also achieved through maintaining and improving the functioning the advisory group on milk. This is a comprehensive structure gathering all the interested stakeholders who have a joint mission: following the evolution on the market and developing criteria in order to be able to anticipate a crisis. This has to be further improved.

Export refunds which were efficiently reactivated during the 2009 crisis are kept, with the possibility of using them in times of crisis and as long as other competitors do not withdraw their exports support measures.

◆ Other measures

Today, we need to reflect on voluntary additional tools which help milk producers cope with market volatility which should not focus on supply management this being no longer sufficient in a globalized market. Additional new measures/tools should be fit for purpose, cost-effective and impact a crisis situation promptly.

In the agricultural sector in general and in the milk sector in particular, there are several risks and uncertainties (market volatility, extreme weather conditions, animal diseases, input costs etc.) which are beyond farmers' control and can only be mitigated. **The income stabilization tool** could help farmers manage the effects of such risks. In addition, a margins insurance scheme could be investigated.

The potential development of **dairy trade derivatives market** as a risk management tool should be further investigated as a possible tool to help dairy farmers and cooperatives alleviate the impact of price volatility. Producer organisations, including cooperatives could play a role in these. However, introducing trade derivatives for liquid milk remains a challenge.

Copa-Cogeca is reflecting on possible voluntary options for a price-based approach, complementarily with the "milk package" provisions.

In addition, **initiatives such as fixed price contracts** between milk purchasers and international customers in view of engaging for a portion of the product sold in fixed price contracts already exist and should be encouraged.

Tools to help milk producers achieve a better income

◆ Maintain unaltered the “milk package” provisions

The recently introduced ‘**milk package**’ with its specific provisions on contracts will make it possible to formalise relations between producers and first purchasers and will work in the interest of both parties.

Producer organisations will play an important role in providing added-value and in reducing farm production costs. However, we need to keep in mind the central role of dairy cooperatives in offering milk producers a better price.

To date, eleven Member States have put in place mandatory contracts in line with the “milk package” provisions, the minimum duration of the contract varying between six months and five years. Twenty-three Member States have introduced in their national law a minimum criteria for the recognition of producer organizations in line with the “milk package” provisions and in five of them, we can speak about negotiating producer organizations. The “milk package” has contributed to improved and more specialised contracts suited to end use and introduced or reinforced the POs structure so as to help increase the market power of milk producers.

◆ Other tools

The milk package is strongly linked with a **better functioning of the food chain**. There is a need to make the whole supply chain act more responsibly towards the primary producer, the dairy farmer, by ensuring a fair share of the milk price. This would be beneficial to all the actors involved. Voluntary initiatives should be underpinned by legislative measures guaranteeing producers fair contractual conditions and the respect of principles of good trading practices.

The specific promotion scheme for dairy products, **School Milk Scheme**, can help encouraging the consumption of dairy products from an early age. This could have an indirect impact on the income of milk producers ensuring a stable consumption trend for young generation. However, there is a need to reduce the administrative burden so that more schools can apply for the aid, increase the Union aid/kg of milk this being not sufficient to cover the cost of milk plus all the costs involved with this scheme and allow that the scheme includes milk which is used to prepare meals in school canteens. Educational training programmes on milk production, quality and characteristics could also be considered. Further simplification of the current guidelines on milk and milk products under the EU horizontal promotion scheme should be looked at.

Optimizing the production costs and thus **enhancing the competitiveness** at farm level and **increasing the productivity** requires ongoing investment (both material and intellectual). Therefore, these need to be encouraged and supported at EU level given the strong link between income stability and change in production costs. Producer organisations could play a role in the reduction of production costs and support should be granted through the rural development programme for the rationalisation of feed costs/improving resource efficiency, improving energy efficiency and energy autonomy of dairy farms and uptake of renewable options, for measures to reduce labour costs, promotion of new breeding technology, improving biosecurity, improving milk solids etc.



Ensuring dairy production across the EU

◆ Existing tools:

• *Pillar 1*

In the new CAP, there is the possibility that member States grant coupled aid for specific types of farming or specific agricultural sectors which undergo certain difficulties and are particularly important for economic, social and/or environmental reasons.

• *Pillar 2*

The structural and economic handicaps faced by mountainous areas in particular and less favoured areas (LFAs) in general cause increased production costs having a strong impact on producers' income level. Therefore, support targeted to these areas helps milk producers remain viable and prevent social and economic consequences due to land abandonment and ceasing of farming activity in these regions.

Investments are important tools to increase competitiveness, reduce production costs of dairy producers and improve the quality of production. In particular in LFAS, investment support (buildings/machinery), modernization, continue to be important for improving farm profitability.

Given the importance of PDOs and PGIs in the dairy sector and the costs incurred with these schemes as well as the administrative burden, support for quality schemes within the Rural Development programme is essential.

◆ Other measures :

The use of the optional quality term “mountain product” is a key instrument for recognizing the efforts carried out by milk producers in mountainous regions and for enhancing and adding value to their production in order to better promote mountain milk as a specific brand. Milk production in mountainous regions represents 9.5% of the total European milk production.

Better target agri-environmental payments to preserve biodiversity on grassland with special attention to steep slopes in view of preserving and maintaining the cultural landscape in mountainous areas.

There is a need to support milk collection costs in mountainous areas and areas with small-scale structures due to the difficulties in collecting milk which these areas are facing.

Investment support needs to be ensured to dairy cooperatives in mountainous and disadvantaged regions. It is extremely important that this is not limited to SMEs.

There is a need for an efficient coordination of supply between producers and processors in mountainous regions.

Conclusion

The Conference organised by the European Commission should not be seen as the end of the discussion and reflection process in the milk sector. This constitutes a step in a regular process of analysis and reflection which is foreseen in the next five years (with the 2014 and 2018 reports on the “milk package” implementation).

It is of uttermost importance that the “milk package” is well implemented and that a national framework is available for milk producers. Should there be a need for other tools to be introduced, these must be complementary to the “milk package” provisions and only of voluntary character for milk producers.

This represents a live document, some tools might be of more interest than others, new ideas might come up, subject to our internal reflection and its conclusions.

Reference documents:

Conclusions on Copa-Cogeca seminar on the implementation of the “milk package” and other measures to complement it

http://ec.europa.eu/agriculture/milk/background/jm-2012-12-12/05-copa-cogeca_en.pdf

Support for farmers’ cooperatives (LEI WUR)

http://ec.europa.eu/agriculture/external-studies/2012/support-farmers-coop/fulltext_en.pdf

Labelling of agricultural and food products of mountain farming (JRC)

http://ec.europa.eu/agriculture/external-studies/2013/mountain-farming/fulltext_en.pdf

Prospects for Agricultural Markets and Income in the EU 2012-2022 (European Commission)

http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2012/fullrep_en.pdf

EU Dairy farms reports

http://ec.europa.eu/agriculture/rca/publications_en.cfm#DAIRY

COPA AND COGECA:

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Copa-Cogeca is the united voice of farmers and agri-cooperatives in the EU. Together, they ensure that EU agriculture is sustainable, innovative and competitive, guaranteeing food security to half a billion people throughout Europe. Copa represents over 13 million farmers and their families whilst Cogeca represents the interests of 38,000 agricultural cooperatives. They have 70 member organisations from the EU member states.



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