



Position Paper on the future of milk production in Europe

Europe's Young Milk Producers united in the European Council of Young Farmers (CEJA) have developed a vision for the future production of milk in the EU until and after 2015. We urge all stakeholders to consider this vision carefully.

I Advantages of the current milk quota system

In the outset, it must be recognised that Member States and their farming communities have used the current system to their best advantage and have developed national solutions, which make the actual milk quota system work well, despite the fact that the price for quota purchase remains intolerably high in some Member States.

In line with our current European Model of Agriculture, the current system allows for milk production from all farm sizes and milk producing regions of Europe, including some of the Union's most disadvantaged regions. At the same time however, the current milk quota system has also ensured a considerable structural adjustment, both in the numbers and in the average dimensions of the farms. In some countries quotas have even helped for young milk producers to stay in business.

As a particular point of concern, we stress that young milk producers who believed in the future of the milk quota system have invested significant resources for the next years in buying quotas. CEJA considers it important not to abolish the milk quota before 2015 in order to accompany and orient young farmers to the market and to protect previous investments. Furthermore, CEJA thinks that it is important to invest into the modernisation of the European milk industry and provide it with the necessary infrastructure. This is why subsidies, and especially subsidies for young farmers, should be kept on a high level, in order to ensure a strong European milk sector after 2015.

II The transition period until 2015

From the outset, CEJA wishes to stress that transitional measures for the abolishment of the quota have the potential to create uncertainty amongst young milk producers and might be negatively affect decision procedure at farm gate level.

Nonetheless, the majority of our young milk producers agree with the need for a transition period to guarantee a smooth landing for the European milk sector. This should take the form of variation in the quota which would be linked to European consumption and a reduction of the super levy until 2013.

However, CEJA is cautious about a balance between offer and demand across the EU. This is because Member States have adopted different management systems leading to very diverse conditions for young milk producers since the introduction of quotas in the milk market. As a consequence, CEJA believes that the degree of quota variation needs to be looked on a country by country basis.

A flexible system would be, if every country can decide by how many percent it wishes to increase its quota. This percentage would then be increased linearly over fixed periods every year.

Moreover, it is very important that already during the transition period, the new future system must be phased in gradually. We could envision the transition period to be a time, where, towards the end, a combination of two systems (old and new) is possible. The end goal should be to allow for farmers or farmers groups to take over such a new system in self regulation at a later stage thus reducing EU policy involvement and expenditure. However, every decision taken should be monitored with caution and a study on the economical impact should be done before implementation of definite rules.

III CEJA's Proposal for the future milk system after 2015

We, as young milk producers in CEJA wish to make a proactive contribution in the discussion on the future of milk production in Europe. Therefore, we have developed a new system for future milk production in Europe that we propose for the period after 2015. It is based on one overarching principle, four guiding elements and a common flexible framework for milk production on two pillars.

The "equal value – no costs" principle

As a general principle, we oppose changing the current system if no system of equal high value, practicality and feasibility and with real long-term perspectives for us can be provided. Clearly, not all can be left to the market! Such a new system must offer a reasonable standard of living for young milk producers across Europe, including in the disadvantaged areas. This also means also that the new system cannot produce any additional costs for the young milk producer.

Four guiding elements

To be more specific, our proposal has four guiding elements:

A) A common regulatory framework for milk production

Future milk production would be guided by a common regulatory framework which applies across Europe. This is a system that is regulated by the European authorities, notably the European Commission. It offers market management tools, which includes a safety net for the dairy market to deal with unfair global competition and future risks.

B) Self organisation of producers

Such a regulatory system must however also be flexible enough to allow for the self-organisation of young farmers based on contracts with other actors in the milk chain. This system would allow us to be able to organise ourselves in the respective national context, ensuring that we have the freedom to produce what the market demands.

C) *Real long-term positive signals to young farmers*

Above all such a framework needs to give real long-term positive signals to young farmers entering the business or who are recently established. The future system needs tangible tools and incentive schemes especially looking to help future installation.

D) *Disadvantaged areas instead of mountainous regions.* CEJA believes that the transition period proposals under the “Health Check” of the CAP should also include special provision for disadvantaged areas not only for mountainous regions. Mountainous regions should be a subsection of disadvantaged areas in the context of milk production.

A common flexible framework for milk production on two pillars

We stress that due to the diverse agricultural traditions, particularities and concentrations of local markets as well as different relationship with the processing industries and retailers in the market, the “one size fits all” solution for a future milk production is impossible. Our regulated, flexible framework therefore foresees two pillars from which the young milk producer can chose. They are

1. Group contract based milk production.
2. Individual contract based milk production

PILLAR 1: Group contract based milk production after 2015

There are significant differences in the relationships between the milk producers and the processing industry/retailers across the EU 27 Member States. This might have to do with the fact that some young milk producers are organised in cooperatives which allow for a higher degree of bargaining power than if the individual young milk producer negotiates milk prices. For some countries, these cooperative structures do not exist and there young milk producer have insufficient influence of their own farm gate prices. In those cases, the milk processing industry and retailers determine the price of milk. In a more liberated market, where young milk farmers depend on the market to deliver the right price, this is an unacceptable solution.

Therefore, under Pillar 1, Young milk producers would have right to organise themselves. The future milk production system would allow for groups of farmers to come together in order to negotiate collectively with the milk buyers at farm gate level. Allowing for groups of farmers to make agreements with the other milk chain actors would ensure keeping milk production in areas of Europe, where milk production would disappear once the quota system is abolished, including the disadvantaged regions.

Under such a system contracts for milk production and purchase would not be signed as a group of farmers but on an individual basis, however resulting from the bargaining result of the group of farmers. Such a contract should entail an indicative recommendation of the price range between producers and buyers. In accordance with European competition law, no price fixing would take place.

As a next step, we could even envision the creation of a European organisation functioning as an interprofession for milk – effectively maintaining the balance between supply and demand in the milk market. Such an organisation could develop individual contracts which would quantify milk production, time of delivery and give recommendation on the adequate price to be paid.

PILLAR 2: Individual contract based milk production after 2015 – FREE TO CONCLUDE THE BEST INDIVIDUAL DEAL

In some Member States of the EU, milk producers have been organised in cooperatives and collectively determine production needs and price developments. Here the bargaining power of young milk farmers is high and the individual contracts established make the young milk producer a shareholders in the cooperative. This automatically ensures a reasonable standard of living and a fair price. This system would then allow for the individual young farmer to produce to market demands.

It is necessary to adopt the right tools to allow a market control and a planned milk production to avoid the high volatility of the market. We also have to protect the IGP and DOP products. They help to maintain the culture and the landscape of a country but they have high production costs. If the milk quota system will end, the producers must be compensated for what they paid to buy more milk quota. In the end, we hope to maintain a well modified milk quota system also after 2015.

IV Elements of the future milk system after 2015

There are other important elements that need to be considered in the future organisation of European milk production in Europe:

Seizing opportunities from Global Milk Markets

As young milk producers, we clearly wish to obtain some benefits from global milk markets. If the milk quotas are abolished by 2015 and if world markets are to be open due to a conclusion of trade deals, then clearly, young milk farmers wish to be supported in supplying their milk products to the world markets. Europe can help to ensure that Young milk producers obtain better access to the world milk market and can export their products to countries where the demand for European milk products is high.

Therefore, EU promotion and export strategies and a global approach to milk production are required in our future milk organisation. Our idea is to develop “European Milk” promotion strategies based on the high quality of European Milk and dairy products and their health benefits. Better banding and support for European marketing campaigns across the globe from Young Farmers organisations and agricultural marketing agencies can make European Agricultural products attractive across the world. At the same time, such a promotion focus needs to strike the right balance with the promotional efforts in all agricultural markets. A joint agricultural promotion strategy could be useful.

Setting up of Young Farmers organisations

We consider that our future system must offer real long-term prospects to young entrants wishing to set up in milk production. Both pillars of our vision presented here therefore need to provide for a clear young farmers entrants strategy

For PILLAR 1 for instance, each regional group of milk producers could allocate part of the volumes of the production especially for young milk producers. The EU could help in this regard, giving a regulatory framework which requires such milk producer organisations to recognise the possibility for young milk to produce more milk than others for the first 5 years of operation. This would ensure the financial cushion to invest in new technology, to modernise and to innovate.

FOR PILLAR 2, cooperatives could self-regulate special advantages for young milk producers joining their cooperative.

Regulatory framework

The underlining principle of our vision is that there is a sufficiently strong regulatory framework at EU level to deal with rapid changes in the milk market. Given the need for price stability and the difficulties attributed to the current cycle system of high prices – low prices, a common regulation for milk supply to avoid drastic price fluctuation is required. Such a regulation could allow for young milk producers to use private intervention systems in order to avoid massive price fluctuations. Under such a system, the young milk producer could still produce as much as the market demands, therefore supplying the internal market and exporting to the world.

We also stress the need for a clear risk management system for the dairy sector. This could involve use of insurance schemes, supported by the EU.

CEJA believes that private intervention can be used as a crisis management measure for a short period of time and on a local level when milk prices are going down. This system shall be carried by the producers and the dairies and shall be managed as a banking account. If the milk price on the dairy's market is going down, the dairy can stock a reserve. This reserve shall be sold after a short period. It will be sold either on a local market or on a market where milk is lacking. This can be in Europe or elsewhere.

Furthermore, CEJA suggests to provide a possibility of public intervention in times of dairy product shortages for assuring food security in Europe.

The costs for stocking as well as the added value from the selling of the milk will be shared by the producer and the dairy. By stocking milk, the offer will shrink and its price will therefore rise. By selling the milk on other markets, a higher price can be asked for the product.

Such a system can only balance short-term and local price differences. A reduction on the world market or all over Europe cannot be balanced by any system.