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Mr Tassos Haniotis  
Head of Unit  
Agricultural Policy Analysis and Perspectives  
Directorate-General for Agriculture and Rural Development  
European Commissions  
Rue de la Lai 130/157  
1049 Brussels, Belgium.

15 January 2008

**Re: IDIA Response to the EU Commission 1<sup>st</sup> Public Consultation on the CAP “Health Check”**

Dear Mr Haniotis,

I wish to thank you for the opportunity to submit the views of the Irish dairy processing industry on the forthcoming CAP Health Check.

Please find enclosed:

- 1: The Irish Dairy Industry policy position, *Future Dairy Policy within the CAP Health Check*.
- 2: IDIA to the relevant areas of your Health Check questionnaire
- 3: IDIA view on the mechanisms of quota abolition which formed part of the packs circulated at the Stakeholder Conference, 11 January 2008.

It is our view that the dairy industry can evolve in line with policies for increased market liberalisation if this change is managed in the appropriate manner by the Commission. This can be achieved through strategic usage of the remaining market management mechanisms up to and possibly beyond 2015.

This management is important given the number of significant factors that will influence the industry such as a possible WTO agreement, the development of biofuels and increasing legislative constraint.

We ask that you consider our views.

Yours sincerely

MICHAEL BARRY  
Director

The Irish Dairy Industry Association (IDIA), represents the Irish Dairy Processing Industry which comprises of both primary and secondary dairy processors. It is affiliated to the European Dairy Association (EDA) and to the European Food and Drink Federation (CIAA) through its parent organization Food and Drink Industry Ireland.



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## **IDIA Position on Future Dairy Policy within the CAP Health Check**

### **An industry ready for the challenge**

The Irish dairy industry is a forward-looking industry, adapting the latest technologies and scientific advances to its products and processes. Traditional product mixes are continually changing, reacting to consumer needs, underpinned by substantial investment in research and development.

The world dairy outlook is for markets to remain firm in the medium to long term, with developing dairy markets growing faster than available supply. Europe's quota system prevents its participation in this growth until their abolition in 2015 thereby reducing its global market share.

Within an appropriate policy framework, the Irish dairy industry can adapt to a quota free and a changing market environment. The EU Commission has the key role in enabling this transition through appropriate policies through the Health Check. This must be delivered through policy clarity, communicated to all industry stakeholders as soon as possible and within a managed market environment up to and possibly beyond 2015.

### **The need for Policy Certainty**

Irish Dairy Industries Association (IDIA) recognises the Commission's position that it does not see a future for milk quotas beyond 2015 and within that context welcomes their recognition of the need for a "soft landing" or a managed change to a quota free dairy environment. This transition will have significant implications for the European dairy industry and will require careful management to avoid market imbalance, or an undermining of producer viability and confidence. It is therefore essential that the EU Commission give clear policy direction to the dairy industry as soon as possible through the CAP Health Check.

### **Quota Abolition**

The merits of the milk quota system are now difficult to justify given past CAP reforms reducing market support mechanisms. To prepare for the end of the quota system, appropriate phasing-out measures are necessary. Up to now, as there is no clear policy direction from the Commission on quota reform, dairy farmers continue to acquire additional milk quota. This erodes the available finance for on-farm investment and acts as a barrier to entry for young farmers and potential new entrants.



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The CAP Health Check is the appropriate mechanism to detail and communicate quota policy to the industry. In so doing, it offers the potential for policy clarity against a background of an amended rural development policy thereby ensuring that quota policy is not incorrectly applied as a policy to address rural decline.

IDIA recognises that the transition to a quota free environment could coincide with a WTO agreement. However this may be achieved, increased EU market access for global dairy competitors will be the result and this will have a significant impact on the internal market. The timing of a WTO deal is as yet unknown; therefore it is essential that market management tools are appropriately utilised to avoid market instability and excessive price volatility.

For IDIA the basic approach to work towards a quota free environment is through a gradual annual increase of national quotas based on market evaluation. In order for producers and processors to take their decisions with regard to their investments, the annual increase in quotas must be announced as soon as possible and set out in the CAP Health Check.

As an additional but separate policy instrument, a revision of current super-levy rules must be considered through an aggregation of European quota's based on annual fulfilment of national milk quotas. Where deemed appropriate by market conditions, consideration must also be given to an adjustment of the butter fat reference values of quotas.

### **Market Reaction**

It is important to recognise that the reform milk of quotas as supply management mechanisms will have an uncertain effect on markets.

It is difficult to predict producer response to quota abolition and the increasing influence of external factors such as bio-fuels introduces new complexities to traditional market modelling systems. The uncertain timing of a WTO deal brings greater uncertainty and justifies appropriate market management by the Commission.

The strength of the 2007 dairy market combined with the planned phasing out of milk quotas could trigger a significant production response leading to market imbalance. Industry investment in increased output will financially restrict its ability to react to market shocks. For this reason the adequate use of market management mechanisms is essential to avoid potential market distortion for the duration of the quota reform process.

Certain market management mechanisms are necessary to insulate and ensure a successful transition to an unsupported and open marketplace. These mechanisms will be required up to and possibly beyond 2015. In this way, the transition will be more successful and create a favourable environment for investment in innovation and new technologies.



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## **Managing Change**

Quota abolition will have significant financial, social and structural implications for the dairy industry and the natural fluctuation of international markets must be recognised. It may be necessary to ensure funds are available to provide the stability during the evolution to a new and very different dairy industry environment. The communication of clearly defined policy through the Health Check is a key part of this reform process and must be done at the earliest possible opportunity.

Price will be the determining factor for industry development during this period of change. Dairy exports make an essential contribution to internal prices and a strategic application of export refunds is justified to avoid a convergence of world and EU prices in too short a timeframe.

The avoidance of short cycle or seasonal price volatility is important in the development of stable internal and external consumer markets. Private storage schemes operate to reduce reliance on intervention and to cushion price variation reflective of production cycles and are therefore justified.

2007 illustrated the shortcomings of current market modelling systems. Given the magnitude of the change to European market policy it is prudent that provision is made for a limited review of the annual quota adjustment figure stipulated within the CAP Health Check. IDIA propose that a market report be prepared in the quota year 2010 to establish if the notified increase in milk quotas is still appropriate. Provision must be made to adjust the annual milk quota adjustment figure should market conditions require.



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## **EU Commission 1<sup>st</sup> Public Consultation on the “Health Check”**

### **Irish Dairy Industries Association Response**

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#### **1. Taking Stock of the Implementation and Simplifying the Single Payment Scheme**

IDIA do not wish to comment on this issue.

#### **2. Grasping New Opportunities and Improving Market Orientation**

##### **2.1 Cereals Set-aside**

##### **2.1.1 Do you consider the abolition of set-aside in the current context of market and policy developments is appropriate?**

IDIA considers that the abolition of set-aside is appropriate, given developments in bio-fuels, which is having a negative impact on the cost of feed inputs at farm level.

##### **2.1.2 What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?**

IDIA considers that there are sufficient schemes available such as Rural Environment Protection Scheme (REPs) and other rural development initiatives to maintain the environment benefits traditionally associated with set-aside.

##### **2.2 Dairy Quota**

Please refer to the enclosed IDIA policy document, Future Dairy Policy within the CAP Health Check.

#### **3. Responding to New Challenges**

##### **3.1 Managing Risk**

##### **3.1.1 Do you consider that currently available policy instruments provide adequate converge to manage price risks?**

IDIA considers schemes such as Private Storage Aid, Export Refunds, Internal Disposal Schemes, Processing Aids and Intervention as tools to manage price risks. It is important that these tools are retained during this period of transition and are used when the need arises.

##### **Do you see the need for additional measures?**

Appropriate use of the existing schemes should be sufficient.



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## **IDIA Response to the EU Questions to Possible Measures To Make the Quota System Less Restrictive**

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### **1. Increasing quotas**

- A gradual annual increase in milk quota, if announced in the Health Check will provide for a soft landing towards 2015
- It enables developing dairy producers to increase production without incurring additional administrative costs
- It reduces the risk of market imbalance caused by supply shocks arising from an abolition of milk quota
- It is very important that the annual increase in quota is communicated as soon as possible in the CAP Health Check

### **2. Reducing super levy**

- Retaining a super levy on expanding dairy producers results in a penalty on expansion
- It would be counter productive to the encouragement of more efficient and market focused dairy units.
- It could, however, be used on an annual basis as an additional tool to the gradual annual increase in milk quota

### **3. Annual end-of-year balancing of quota across EU-27**

- This is justified on year on year basis, following evaluation of the effect of the annual increase in milk quota
- It will enable the EU to produce to full quota potential
- Simple to administer and non-political in nature

### **4. Cross-border quota trade**

- Difficult to administer
- Politically sensitive
- Creates an undue focus on quota transfer rather than on milk production

### **5. Abolishing fat correction**

- Should be considered as a measure in addition to increasing milk quota