

Eucolait Position on Dairy Policy in the context of the CAP Health Check Review

Comments by the President Mr Jack Baines to the stakeholders' conference

Friday 11th January 2008

Commissioner,

Introduction

Firstly, can I thank you and your officials in DG AGRI for providing this welcome opportunity for all interested parties in the dairy sector to comment on the future of EU dairy policy in the context of the CAP Health Check Review. This is an important event, on an important issue, and as President of Eucolait, the European Association of Dairy Trade, I very much appreciate this opportunity to convey our views on the subject.

The word “unprecedented” has been used frequently as a descriptor of the dairy markets in 2007. EU milk and dairy product prices rose to historically high levels last year, peaking in late summer. The factors leading to this situation have been well aired at this stage, but can be summarised as a production deficit in key milk producing regions (including in the EU) to meet a further growth in demand for dairy products.

If the market analysts are to be believed, the outlook for dairy in the next few years is positive as well.

Market sentiment has been boosted by this positive medium term forecasts both for the world and EU dairy markets. Consumer demand, particularly from emerging developing countries is expected to grow further over the medium term. Significantly for the EU, this growth in demand will also extend to processed dairy products and should lead to better returns for farmers and processors alike and compensate them for higher input costs.

The projections for our internal market are positive as well. The Commission's own medium term projections to 2014 predict that the overall balance of the EU market will improve further over the medium term. Cheese consumption and production will expand by a further 1 million tonnes and, as a consequence, the production of the EU's main commodity products (SMP and butter) will decline.

But an important lesson learnt from 2007 is that market analysis is not a true science. The strength in the rise of dairy prices in 2007 was not foreseen.

Indeed an eminent speaker from the OECD recently described 2007 as a humbling experience for all market analysts.

While medium term price projections are positive, the prices experienced in 2007 have proven not to be sustainable in the short term and indeed have in the last 3 months already fallen back significantly from their record levels. We are very much in uncharted territory here with regards to volatility and swings.

For these reasons, Eucolait believes, that while the time has come to review past reform and give shape to a more liberalised future dairy policy, this review should not be based solely on the experience of the last 12 months.

EU dairy is entering a new era and must be equipped to address future challenges and, equally importantly, to grasp new opportunities. The new-found confidence in the sector arising from improved market conditions must not be undermined while undertaking this necessary review to better prepare it for the future.

Room for EU exports on the world market

Externally, the EU is the single largest and most important dairy region in the world and is also the world's largest importer and exporter of dairy products. It is strategically well placed to meet this growing dairy demand and has the potential to expand but, as we have seen in 2007, this potential needs to be handled carefully.

Our message here to the Commission is: please move ahead with this mid-term review but be mindful of our true potential and of the need to bring the sector along with you.

To ensure a vibrant, robust dairy economy for the future, the EU must be able to participate in the growing world markets. To this end, sufficient availability of milk in the whole of the EU is key. Dairy farmers must have confidence in getting a reasonable return for their labours in order to stick to the production of milk, and not migrate to one of a growing number of alternative agricultural enterprises like biofuel that may be less sustainable in the future.

The present quota level and the future of the milk quota system

On the issue of the expansion of the milk quota, the presentation of the market outlook report this morning indicated that a 2% quota increase in the coming quota year will be easily absorbed by the market.

It has to be said that such a decision would have been more gladly received when the market was out of balance in 2007 than in early 2008 when the prospect of more milk could be seen as feeding the present bearish market sentiment. Psychology is key here.

In any case, Eucolait does not believe that this 2% increase will effectively translate into a 2% increase in deliveries in the 2008/2009 quota year as farmers in some member states will not be in a position to take advantage of additional quota availability.

There seems to be much to say in favour of your assertion that the milk quota system should be phased out by 2015. As a trading organisation Eucolait generally welcomes and supports liberalisation in all aspect of dairy policy, be it production, imports or exports.

However the manner in which the quota is phased out will be crucial to the future shape of EU dairy. Producers and processors' future investment decisions are intrinsically tied to this policy decision and the stakes are high. New facilities will have to be located where the milk will be produced but assistance also needs to be given to regions likely to be less competitive in a lower price environment.

The cumulative impact of annual increases in quota from 2009 however is much more significant than any increase in the short term and we eagerly await the results of the studies underway on the regional impact of the soft landing options.

Whatever approach is adopted, it is essential that a clear and concise message is given to facilitate the right investment decisions by all stakeholders. At the same time, flexibility will need to be built-in, to allow for the smooth management of this transition – the imaginative use of other instruments could be particularly useful in this regard.

Other market instruments

It is widely accepted that the dairy markets are becoming more volatile. We think this is natural for a newly liberalised market that is in the process of finding its' own equilibrium.

I mentioned at the outset that it is important that this review of EU dairy policy is not based solely on the unprecedented market situation in 2007.

To ensure a managed change and facilitate the ‘soft landing’ advocated by the Commission towards 2015, some market instruments should be retained in case they are needed to ‘iron out’ the bumps on the way there.

I say this in the absence of a new WTO agreement, because should one finally be concluded, and depending on its timing, its implications would need to be reflected in the EU dairy policy.

Whether we like it or not there is still a role to be played by “Brussels” in the EU dairy markets, albeit this role should be more that of an overseer, than an active player.

The butterfat, protein or cheese markets will not always be in equilibrium and the timely use of some instruments could help the market along in case of severe imbalances.

Even though the medium term objective is to be competitive in the world without refunds, Eucolait welcomes the Commission’s commitment to continue to pay them for dairy products where necessary up until 2013.

Butterfat supply and demand will not always be in balance and additional measures such as removal from the market or storage will be necessary. The current intervention scheme for butter with a 30 000 tonne ceiling and the subsequent option of tendering already makes this instrument “future proof” and provides the market with a buyer of last resort. The private storage aid scheme on the other hand is possibly the most cost effective instrument currently operated in the dairy sector and is key to limiting seasonal imbalances.

Support for the protein market is maybe less relevant at the present time. However, the instruments of intervention and internal protein support should be revitalized again if needed.

We wouldn’t want to see the food industry replacing more dairy ingredients in recipes if prices hit uneconomic levels. In an inverted situation, where supply would be seen to temporarily fail, inward processing and other well-timed and calculated relief measures for selected product categories could help restore market balance without longer term implications for the primary sector.

Timing in the use of these market tools will be all-important and should be proactive rather than a last minute job in a dysfunctional market.

In order to keep a vital primary sector and sufficient milk production, a reasonable price has to be paid for farmers’ milk. It is incumbent on all of us to play our part in ensuring this.

In conclusion

Mme Commissioner, when it comes to dairy, it is more than fair to say that the Commission has met its 2003 reform objectives. The consideration to phase out quotas in the second half of the game is more ambitious and fundamental new approach with far-reaching consequences which needs to be managed carefully.

We trust our sector is in good hands and we wish for your policies to succeed in an EU of 27 member states and in the foreseeable international setting.

Thank you once again for giving me this opportunity to convey the view of the trade and I look forward to a fruitful debate on all these issues in the subsequent sessions today and in the weeks and months ahead.

Thank you.

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