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**CAOBISCO Response to the CAP Health Check Questionnaire –  
Questions on Dairy Quotas 2.3.**

***Commission:***

*Originally the introduction of the dairy quota regime aimed at limiting the surplus production effects of price-support policy in the context of the depressed world prices. In recent years, however, the dairy sector is facing strong internal and external demand and high prices, instead of high supply and depressed prices. In this context it becomes clear that the quota system, which is scheduled to expire by 2015, is acting more as a constraint to the sector by limiting its capacity to benefit from market opportunities and improving its competitiveness.*

*In this context In the light of new market opportunities, do you consider that the quota system is still fulfilling its stated objectives?*

***CAOBISCO:***

CAOBISCO agrees with the Commission that in the new world market context of increasing demand and high prices, the original *raison d'être* of the dairy quota regime has become redundant. By rigidly limiting production, the quota system has resulted in insufficient production, not just management of surplus.

Supply became so tight, that in 2007, Caobisco member companies were, for the first time, faced with cases where suppliers were defaulting on contracts. Stocks of SMP and butter have dried up. Prices have been at record highs. While prices have decreased in the last few weeks, this reflects the new (and excessive) volatility in the market. Prices are expected to remain well above average prices over the last decade.

The reality is that demand for EU dairy products is increasing both within Europe and in export markets. The existing EU quota levels and system are hindering rather than helping producers to adapt to these clear market signals and to benefit from growing markets.

To achieve the EU's global competitiveness goals in our sector, EU production of milk has to keep up with rapidly growing demand for higher value added dairy and dairy containing products. It has to ensure continued supply at reasonable prices of milk, butter and dairy ingredients for consumers and for the food industry. It would be a shame indeed for EU dairy based products to lose market share in growing global markets.

We therefore welcome the Commission's recognition of the vital need for quotas to be increased urgently, and for a review of the quota system itself. We believe that a quick decision is needed to increase quotas for 2008 by a minimum of 2% so as to secure sufficient milk deliveries to meet growing demand. We fear that quotas will not be fully used, given the heavy penalties applied to over quota production and the various specific constraints in different Member States. Enabling replenishment of stocks of butter and skimmed milk powder to healthy levels would also help mitigate seasonal imbalances and price volatility.

In addition, we would encourage measures to relax the application of the super levy or reduce its amount. Producers should not be fined for overproduction in case as recently, of global shortness of supply. We believe penalties should be suspended or reduced, particularly when the overall EU production level is below the overall EU quota amount.

As a key stakeholder and main user of dairy products, we would appreciate a place at the table of "civil society dialogue" along with dairy farmers and dairy producers.

***What benefits and what risks do you see from doing nothing and simply letting the quota regime expire in 2015?***

We see mainly risks and lost opportunities in a scenario of doing nothing. If a decision is not rapidly taken to increase quotas as of 2008, then we expect dairy supply shortages in Europe. Not only will there be high prices and availability risks for consumers, but also loss of market share in growing global markets as Europe is both unable to supply and unable to demonstrate long term competitive perspectives.

CAOBISCO members export about 10% of our European production. If raw materials in Europe are insufficient and/or much more expensive than on the world market, then the economics of producing in the EU for export, will further deteriorate.

We need a review of the dairy regime in the context of the CAP Health Check, which would consider how to ensure that the dairy market is able to adapt to market signals while ensuring fair incomes for farmers, reasonable prices for consumers and competitive positioning in global markets. Measures are needed to provide the right environment for European farmers to reinvest in European dairy production. Maintenance of production [throughout Europe remains essential](#).

***What kind of effects do you see emerging in the case of a gradual phasing-out of quotas through increasing their annual level? What would you propose as an alternative or accompanying transition measure?***

Once the initial quota increase is in place, further gradual quota increases should be sufficient to ensure that supply can increase in line with demand, allowing for buffer stocks. Flexibility is needed to enable actors in the dairy market to adjust to operation under true market conditions, thus avoiding any shocks in 2015.

The gradual increase of production quotas should be accompanied by a relaxation and reduction of the super levy. Producers should not be fined for overproduction in case, as recently, of global shortness of supply. We believe penalties should be suspended or reduced, particularly when the overall EU production level is below the overall EU quota amount.

This process of gradual adjustment should enable appropriate adjustment of dairy farm economics and management of the quota value issue, which is a cause for concern in some member states.

These measures must be accompanied by the introduction of an effective system for the collection and publication of updated real-time statistical data on milk production, quotation prices, SMP and butter inventories (public & private), imports, exports, fat content in milk, etc.

Good published Commission data would favour market transparency and help operators to make informed decisions and to manage risk. It would also contribute to reducing price volatility, as it would favour fact based rather than sentiment based decision-making.

We also support the maintenance of PSA regime for Butter and SMP, in order to bridge seasonal imbalances and to ensure visibility of inventories to all market participants.

While we consider it most important to ensure sufficient supply of EU milk for European production and exports, there are circumstances, such as the current shortfall, where access to imports is necessary to ensure security of supply and competitiveness in global markets. Improved access to inward processing and simplification of the usage of the mechanism is essential (e.g. the equivalence criteria).

Finally, we think it is important to monitor and favour, in any possible way, the creation of a futures trading system for SMP, Butter and Milk as it already exists for other agricultural commodities such as grain futures traded at the “Matif” in Paris.

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