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CAOBISCO views on the dairy market situation

Caobisco shares the concerns running throughout the dairy chain as regards insufficient supply of EU milk to meet rapidly growing demand. Measures are needed to provide the right environment for European farmers to reinvest in European dairy production. Maintenance of production throughout Europe remains essential.

Supply is so tight that for the first time we are facing cases where suppliers are defaulting on contracts. Stocks of SMP and butter have dried up. Prices have been at record highs.

Demand for EU dairy products is increasing both within Europe and in export markets. The EU Dairy farmers and industry have not been able to adapt to these clear market signals because production is limited by the existing EU quota system, which was until now designed to manage permanent oversupply. The entire dairy chain has not been able to adapt to this new situation and have not profited from the boom in demand in global markets for high value added European dairy and dairy containing products.

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 products and to ensure continued supply at reasonable prices of milk, butter and dairy ingredients for consumers and the food industry.

A secure and competitive supply of EU dairy products is vital for our industry, and the current market situation is not delivering this.

As a first step:

- We welcome the fact that a majority of Member States and the Commission recognizes the need to increase production quotas as from 2008. Early decision making is of utmost importance in order to enable farmers to plan ahead. The level of the quota increase would have to be balanced in order to avoid negative impacts on current farm economics and as such disruptions of production while guaranteeing coverage for the annual growth of dairy products consumption, ensuring sufficient supply for fresh milk and ingredients, and enabling growth of EU exports of dairy and dairy containing products. Replenishing buffer stocks of butter and SMP to healthy levels would mitigate price volatility.
- To enable the whole supply chain, to adapt and profit from increasing demand trends, **EU milk deliveries should be at 143 million tonnes by 2009.**
- In addition, we would encourage measures to relax the application of the super levy. We have a serious problem with the fact that some producers are being fined for overproduction at a time of global shortness of supply. Should penalties not be suspended or reduced, particularly when the overall EU production level is below the overall EU quota amount?

As a second step:

- 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.

Notably this should foresee:

- The most appropriate approach to the phasing out of the quota system. This should include both substantial increases of quotas and phasing out of superlevies. It should enable production to keep up with demand perspectives and bring required flexibility to the market;
- Restructuring of the dairy industry allowing most competitive players to fully exploit their potential.

Furthermore:

- We would support a re-newed role for the Commission (e.g. through the Management Committee) in putting in place collection and publication of updated real-time statistical data on milk production, SMP and butter inventories (public & private), export data, fat content in milk, etc. (The lower frequency of Management Committee meetings and phasing out of market intervention resulted in further delays and lack of data publication.) The objective of this activity would be to favour market transparency and to help operators in making informed decisions and managing risk;
- We 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. Any simplification in this area is most welcome;
- 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.
