

1. Agenda adoption and approval of minutes of last meeting (3 September 2014)

No comments.

2. Election of chairman and vice chairmen

The candidates briefly introduced themselves. Votes were cast with a show of hands around the room.

Jack Baines (EUCOLAIT) elected as President.

Tommaso Abrate (COPA COGECA), Michel Nalet (EDA) elected as Vice-Presidents.

Strategic Agenda to follow in 20 days (by the Chairperson). This strategic agenda will be valid for seven years and will aim to reflect a good balance of topics.

3. Discussion on organization of CDG – presented by the Interinstitutional Unit of DG Agri

Background: there were several reasons behind the reform of the old Advisory Group system: the EP resolution on reform and complaints by journalists to the Ombudsman on the lack of transparency. More balance between economic and non-economic interests, more transparency, and adaptation of the system to the CAP (and current structure of DG AGRI) were other reasons behind the reform.

DG AGRI is open to suggestions, this is a test year and advice on how to improve the system of meetings will be taken on board.

Feedback on the procedure of the meetings is also welcome.

New members present in the room were asked to identify themselves: these were the Eurogroup for animals (EFA), FACEnetwork (Farmhouse and Artisanal Cheese and dairy European Network) and Eurocommerce.

4. Market situation

a) Presentation by COM and comments from stakeholders/exchange of views and b) Update on the margin study

- Production statistics (January to August 2014): There has been a huge increase in milk production recorded (in basically all Member States, biggest increases in Baltics but even more so there have been remarkable increases in Romania), mainly going into powders

- Latest raw milk prices are still quite high in comparison to the milk price equivalent based on commodity prices.
- Gross margins are however on a downward trend following the milk price decrease.
- SMP prices down 35% on 2013 prices, €199/100 kg is the latest average price.
- Butter: price has dropped 13% since Russian ban began in August, now there is a stabilization of prices and even an increase in recent weeks.
- WMP: price has dropped 32% since before the Russian ban.
- Cheddar and Edam also down; general price evolution has however been more stable when compared with other products
- The drop in cheese production following the introduction of the Russian embargo had caused rise in whey powder prices; however these prices have fallen back in recent weeks.

World prices overview:

- Euro has weakened significantly vis à vis the dollar (by 8% in 2014), improving the competitiveness of EU product.
- Generally speaking, Oceania is the most competitive on all products and the US is the least competitive.
- On SMP prices are aligned as between the EU, the US and Oceania.
- Butter: there has been an exceptional increase in the US price over the course of the last twelve months but this has started to drop. The price rise can be attributed to a limitation on US domestic stocks. The same development has been observed for the US cheddar price.
- Good growth in EU SMP exports, making the EU the market leader globally for SMP, ahead of the US.
- New Zealand remains the global leader in WMP exports.
- Cheese exports are down 6% on the same period last year (January to September). This is clearly as a result of the embargo as exports in August were drastically lower. Although exports are down overall, volumes exported to the US, Japan and Saudi Arabia are up. With the Russian market closed, the US has become the EU's largest market for cheese.
- China has witnessed spectacular import growth for both SMP and WMP (January to September 2014 vs the same period in 2013).
- Australia: for the moment the production outlook remains reasonably positive but there are concerns about possible drought, conversely production conditions are excellent in NZ.

Market updates by Eucolait:

Cheese- cheese prices have fallen in the wake of the Russian embargo and production has also decreased. Cheese which was produced for the Russian market has been mostly disposed of on the domestic market through retail promotions and the food service and manufacturing sector. Current returns on cheese production are low and are likely to remain that way for the first half of 2015. Cheese production remains in excess of demand but a weakening of the Euro means that EU cheese is more competitive than US cheese on third country markets.

Butter- after the initial price decreases following the start of the Russian embargo in August, butter prices have lifted somewhat and are now around €3000/tonne. This truly is 'the butter mystery', in the sense that it is more difficult to predict trends in butter prices than for other dairy commodities.

At the end of the spring this year, butter stocks were rather low as manufacturers were opting to direct milk into cheese and WMP production. There has also been an increase in demand for consumer retail butter and butter as an ingredient. The fall of the butter price also encouraged buying activity. It also helps that the peak season for consumption coincides with the lowest time of the year in terms of milk production. An outlook for strong milk production and the difference between the EU internal price and the world market price however all point to negative price developments in 2015.

Powder: SMP prices have dropped significantly in the wake of the Russian embargo. WMP prices have fallen by more than 30% since August. However, in light of price decreases there has been interest and buying activity on the market. Buying from China has slowed but there is hope that this will pick up again at the beginning of 2015. The economic crisis and lower oil prices have also affected buying in third countries. The drop in demand post-Christmas in the western world also coincides unfortunately with the season when milk production in Europe picks up. International price situation: SMP Oceania US\$2400/tonne. SMP EU €1800-1850/tonne. Prices are currently approximately €200 above intervention level but if downwards movement continues the EU price will be at intervention level before long. WMP EU €2300/tonne. Prices are aligning in the US and it is likely that they will return to the global market as sellers. PSA latest – 13,559 tonnes as of 9 November 2014.

Reactions

Eurocommerce: consumption in most countries has decreased this year, (a decrease of 1 to 2%), and it is not clear if this due to population changes (i.e. emigration) or a true decrease in per capita consumption. The Chairman agreed that data on consumption would be very useful.

EMB: asked about possibility of October price statistics as we are now in the second half of November. Production costs in most MS are around 40 cents and the prognosis for the months to come is very negative. Concrete statistics on the impact of the Russian ban would be desirable.

COM: The intervention price has been set by MS in the Council. Stock information is available on the Milk market observatory website. In terms of reporting on impact of the Russian ban, the price trends for most of the main dairy products are reported. Here we see the impact.

ECVC: There is a need to look what tools are available in post quota era to guarantee fair milk price and to avoid a 2009 style collapse

EDA: it is difficult for farmers to reduce milk production and this cannot happen overnight; EDA is not optimistic about there being a production decrease in early 2015; EDA works actively on stocks; there is also a difficult situation for processors and bad results have been announced by companies; there are no positive developments expected in first half of 2015. EDA does not understand why dairy sector has to stand alone in paying the price for what is a political crisis. This is an exceptional situation and an intervention price increase would be justified. EDA predicts that there will be product sold into intervention before Christmas for SMP.

Copa Cogeca: farmers have already received signals of further price cuts; farmers are facing cash flow problems, credit squeeze. In response to the question of lower butter fat, cows have been milking exceptionally well this year. Production is not likely to fall in the short term, producers will do what they can to stay alive but at some point cash will run out which will have negative consequences on the sector. Some additional EU measures are needed as the Russian embargo has aggravated the situation.

4. c) Short and medium term outlook

Milk prices will fall further to follow the trend seen for commodity prices (see comparison with 2008); the price drop has so far not been as sharp as in 2008. 2015 production is expected to finish at around +4% because of quota considerations in some MS are now causing a slowdown, moreover production was very high in the last months of 2013 so comparing milk production now with the end of last year is not really representative.

The outlook works with the assumption that the Russian ban is lifted in August 2015 (but it is not expected that there will be a full recovery of EU export volumes in second half of 2015).

Cheese production will increase despite embargo, as milk has to go somewhere; however there will be a decrease in cheese exports and stock building. Butter exports and domestic consumption to increase heading into 2015. Increased UHT exports to China is upholding the export performance of fresh products, although the overall prospects for fresh dairy products are not fantastic going forward. 2014 was an exceptional year for SMP (recovery from 2013 low volumes); the forecast is that exports will be up 43% when compared with 2013. The forecast for WMP is positive. Exports have increased once again. Demand from the chocolate industry and other manufacturing activities is said to be healthy.

Questions:

Copa Cogeca - Is there enough processing capacity to realize the projected growth and to provide the global market with the products being demanded?

EDA: huge investments are being made, it is of course difficult to compare this exactly with the additional volumes. This should not be a problem now as we are in the seasonal low of milk production.

Russia is importing from alternative sources (and is even offering duty free access). If ban is lifted, Russia will probably not come back as an importer of the same importance as in the past.

5. CAP and Market management

a) PSA b) Changes to public intervention regime and c) possible additional measures in view of the Russian ban

COM: When the Russian market was closed to EU exporters with immediate effect in August, 1.5% of the total EU milk production was affected as this describes in milk equivalent the volumes which had been exported by the EU to Russia up to that point. Cheese PSA was discontinued on 22 September due to disproportionate use by producers of cheese not traditionally exporting significant volumes to Russia. Therefore cheese PSA was deemed not to be helpful for market.

Butter: so far almost 20 000 tones in private storage; for SMP, the volume is 14 000 tones; not extremely high levels but programme has become an outlet not only for products usually shipped to Russia but also milk for which no alternative market was found. No information on possible additional measures in light of Russian ban at this stage.

PSA – the Commission is considering whether and how to extend PSA beyond the end of December.

Intervention (IV): this has been prolonged, so far no offers to sell product into intervention; there are plans "to do something" on this issue but no further details were provided by the Commission.

The EU dairy sector has become competitive following successive reforms targeted at market orientation and prices have aligned with world market. This policy outcome should not be reversed. The safety net has not been designed to be cost covering, it is not a hammock.

The IV and reference prices have been confirmed in 2013 CAP reform. Changes to IV prices are a huge political issue and cannot be decided by Commission alone.

EMB: for discussion on market management a realistic assessment of the dairy market and in particular producer prices is needed. At the moment it is not felt that this is taking place (in the Commission)

Copa Cogeca – the CAP budget has been cut, there have been additional requirements introduced (such as greening) on the EU farmers, internal market is driving prices down to the intervention level, consequently the reference thresholds for dairy need to be revisited if we want to keep dairy farmers in business. The Commission has made the commitment to grant private storage aid for cheeses up to a quantity of 150.000 t. The remaining ~50.000 t should be allowed for private storage under the scope defined by the Commission. Why has Finland been dropped out of the list of beneficiary countries for additional targeted aid, as 25% of the milk produced in Finland was being exported to Russia prior to the ban? 1.5% of the EU's milk production can shake up a market.

The proposal from the Commission will be discussed in the committee meeting of 20 November. Only the three Baltic States meet the two criteria fixed by the Commission (i.e. a certain percentage of total milk output being exported to Russia and an impact on the price paid to farmers). COM was clear to state that this is a proposal and that no final decision had yet been made.

EDA: the Commission does not appear to be listening to concerns from sector; there is no reason not to make proposal on IV price adjustment.

d) Revision of 826/2008 on PSA and Intervention regulation - alignment with Lisbon.

In the context of aligning the current legislation to Lisbon, the regulation will be split into delegated and implementing regulations; simplification is key as ad hoc application requires so and competence with stakeholders and authorities is diminishing. Soon expected to have a first draft text reflecting the discussion. A horizontal text earmarked for the end of 2015.

e) Regulation 479/2010 concerning notifications – changes introduced due to the milk package

The milk package provides for notification of milk volumes, which will apply from May 2015. It will mean that there is a record maintained of EU milk volumes in the post quota era. A change of price notification rules is also an element (MS now need to give an estimate on current month prices from November 2014 onwards when reporting the actual price of the previous month).

Comments: The change in the price notification rules will be difficult to establish and there are also competition law concerns.

COM: prices are not set as recommendations, but rather it is a report of payments. So competition issues are not at stake.

f) School Milk Scheme

An update was provided by COM. The new requirement as set out in the new CMO Regulation 1308/2013, that member states present a detailed annual strategy for the school milk scheme (SMS) was outlined. The Commission Delegated Regulation (EU) No 1047/2014 supplementing Regulation (EU) No 1308/2013 as regards the national or regional strategy to be drawn up by Member States for the purpose of the school milk scheme lays down the rules for the strategy that MS participating in the SMS are required to draw-up and have in place by 1 August 2015. MS shall submit their strategies to the Commission by 1 July of each year.

6. Food Law and quality issues

b) Organic

There is a new proposal by COM; politically negotiating directives have been adopted for this review. Progress at European Parliament level has been slow due to elections this year; however there has been more progress in Council; overall the package has received a mild reception from stakeholders. The proposal is strict and aims to support the sustainable growth of the organic sector. Exceptions to rules on organic production are set to be eliminated and countering fraud is considered a priority. A level playing field for imports/exports needs to be established, therefore only equivalence agreements, based on reciprocity, will be entertained. No unilateral recognition of a third country's system is foreseen.

EDA: export markets are important and should be considered in a review of the EU organic system.

COM - in relation to negotiations with Korea, COM provided an update on the state of play. Talks on equivalence are progressing in a positive direction.

a) Study on mandatory origin labelling

An internal consultation ongoing on the basis of the report submitted by consultant. LEI Univerity (Wageningen) has assessed different scenarios. There were nine case studies in nine member states, representing 80% of the total EU milk production (looking at place of milking and place of processing). Publication of study will be soon.

7. External trade – SPS- Opening up new markets for EU dairy products - priorities

A representative of DG Trade presented the priority markets for EU dairy exports. In relation to SPS barriers to trade, the underlying assumption exists under WTO rules that there is the right of every country to regulate on food safety but within an internationally set framework (Codex, OIE), i.e. such rules cannot be deliberately trade restrictive.

The Commission continues to follow-up with trading partners with a view to lift unjustified SPS related measures which do hamper exports of milk and dairy products from the EU. In order to be most effective, the Commission requests industry and EU Member States to provide detailed information to strengthen our argumentation towards trading partners.

In the light of the recent Agri-food ban imposed by Russia a number of priority alternative markets have been identified – markets which are currently closed or partly closed due to SPS measures. The aim is to give additional attention to these markets with a view to lift these SPS barriers. It should be noted that the Commission continues to work also on other SPS barriers which are brought to its attention.

Reaction: Dairy - why are Mexico/Indonesia, Vietnam and countries in Central Asia not included in the priority market list?

The main issues facing dairy exporters include the following:

- Only allowing the export of milk **from** country of export,
- inspections vs audit,
- cumbersome procedures,
- Ban in some third countries on raw milk cheeses

China: there has been a major overhaul of the Chinese food safety legislation in the past two years; listing of establishments is now required (pre-listing is possible for establishments exporting regular dairy products, but approval must only take place on a plant by plant basis for infant formula exporters).

The new food safety law should have been adopted in October 2014, its implementation has been postponed, as there will be another public consultation. The Commission is following this very carefully and is actively discussion this with China to ensure that the the rules in the new law does not put further restrictions, in particular on imports of infant formula.

8. AOB

The seven listed topics are In fact linked to point 3 – (strategic agenda). There was no update provided on the topics listed. These can be looked at in the scope of the strategic agenda and a possible broadening of the scope of the strategic agenda itself.

Copa Cogeca and Ceja: Superlevy payments should be ring-fenced to the sector and it should be possible to pay the fine over several years as it will help cash flow.

COM: it will not be used for dairy sector, see budget discussion whereby revenues cannot be ringfenced. There will be no derogations from the superlevy rules.

Copa Cogeca: COM could help the sector by adjusting the fat correction factor. COM responded that this discussion was closed and that there would be no changes made on fat correction.

Next meeting: should be earlier than June. Date TBC.

Disclaimer

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