12 EQ8: Competitiveness on international markets

To what extent have the CAP measures applicable to the dairy sector contributed to improved competitiveness of milk products on international markets?

12.1 Interpretation and comprehension of the key terms of the EQ8

The keyword in EQ8 is competitiveness of EU dairy products on the international market. Whereas competitiveness in general is a broad concept, the evaluation question targets on one aspect of it, namely competitiveness of the EU dairy products on international markets. Since the EU is a net exporter of dairy products, competitiveness is here linked to the potential of the EU to profitably export dairy products to the world market, without being in need of any kind of support. Competitiveness is also linked to being able to preserve or expand its position in the market.

Competitiveness is understood both in terms of quantities and of prices. As was shown in Chapter 4, both are closely related to each other (see in particular Section 4.3). Being competitive with respect to prices means selling in this price, which will enable to supply larger volumes. Furthermore, if a product loses market share this is often related to non-competitive prices, in particular when products in the market are homogeneous or standardised. An indicator of competitiveness is the evolution of the market shares of the EU dairy products in the world markets. In particular when products are highly differentiated (e.g. different types of cheese) it can be the case that in spite of a negative price gap, still a certain volume of products can be exported without any subsidy. As such the evolution of unsubsidised exports is of interest.

A further point to consider is the gap between EU prices for dairy products and the associated world market prices (price-competitiveness). As discussed in Chapter 3, there is a link between the competitiveness of EU dairy products and the CAP measures aiming in stabilising prices e.g. intervention prices for butter and SMP, export refunds, the buying-in rate of intervention for butter and skim milk powder, and to a much lesser extent certain disposal aids for intermediate and final consumption of dairy products (see Chapter 9).

Another aspect of competitiveness is the degree of protection at the home market which is determined by the level of import duties (e.g. import tariffs, tariff rate quotas). The trade policies as such did not change after 2003, while the levels of the import duties have been only slightly adjusted (see Table 14.8). Therefore import tariffs and tariff rate quotas affected only slightly changes of the EU’s competitiveness of milk products in international markets and are not the focal point of this Chapter.

It is important to note that competitiveness is related to longer term trends and not to incidental situations. As such it is important not to draw strong conclusions from market disruptions, which may have a large impact on the market and also on the export possibilities, but which have to be separated from longer run structural changes happening in the dairy markets.

The milk products concerned in this question are butter, SMP, WMP and cheese. As shown in EQ6, the extra-EU trade of drinking milk and cream is very limited and for those products rather the domestic market and not the international is of interest. Hence, competitiveness on international market is not relevant for cream and drinking milk.
12.2 Methodology used for answering the EQ8

Per product the evolution of the EU’s market share with respect to exports and imports is evaluated, and linked to policy measures. Since exports and imports are part of the market balance, this evaluation questions is linked to EQ6.

The following steps have been made in order to derive the characteristics of the EU’s dairy exporters’ competitiveness:

- The market share of the EU in world trade for the above mentioned dairy products is assessed and related to policy measures;
- The evolution of unsubsidised exports and its share in EU’s total exports is discussed
- The evolution of the price-gap between EU and world market prices for dairy products is analysed and linked to policy measures;
- Within the case study areas, dairy processing firms have been asked how they perceive EU policy measures and changes therein to have affected their competitiveness. The information this delivered with respect to competitiveness is used in this chapter.

Regarding the own survey, dairy processors were asked questions on how they perceived their competitiveness in the international and home market. Questionnaires were answered by 42 processors in 10 Member States. The processors were asked to what extent they see a link between changes in competitiveness and the EU CAP policy measures which have been implemented since 2003 and have been part of the 2003-reform. Also local stakeholders and experts were approached in order to get complementary information on the processing sector in the case study countries. However, because of the small sample and potential biases in answers to questions, the results are not representative. Moreover, it also cannot be excluded that firms behave in a strategic manner and disclose information in a selective way. Results based on this information should be treated carefully (see also Section 11.2.2 for more details).

12.3 Judgement criteria, indicators and information sources used for each indicator

Table 12.1 summarises the indicators and information sources that have been used to evaluate EQ8.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Data requirement</th>
<th>Information sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of EU in world trade of milk products by product</td>
<td>Imports and exports of milk products</td>
<td>Imports and exports of milk products (EQ6)</td>
</tr>
<tr>
<td>Share of unsubsidised exports in total EU exports by milk product</td>
<td>Volume of exports of dairy products without export refunds</td>
<td>DG AGRI</td>
</tr>
<tr>
<td>Price-gap between EU and world market prices for milk products (butter, cheese, SMP, WMP)</td>
<td>EU and world market price series for milk products; Bound and applied tariffs for milk products (export refunds and import duties)</td>
<td>DG AGRI, EUROSTAT</td>
</tr>
<tr>
<td>Number of product innovations</td>
<td>Information from questionnaire to processor on value added production, competitiveness, impact of policy measures on competitiveness</td>
<td>Processors survey (in case study regions)</td>
</tr>
</tbody>
</table>
The EU’s dairy industry is evaluated to be competitive or becoming more competitive, if:

- The share of the EU in world dairy product trade increased (without the use of refunds)
- The share of unsubsidised exports over the total exports was positive and/or increased
- The price difference between EU and the world market declined
- The imports of milk products into the EU from abroad decline relative to the domestic supply (import substitution).

Moreover, based on information from the survey to processors, a qualitative assessment has been made as to how:

- EU policy measures and changes therein affected the competitiveness of the dairy industry, with specific attention for how different milk products may have been differently affected
- The (state) aid provisions contributed to improving the competitiveness of the dairy industry.

The reader should be warned that changes of the EU’s market share could also be due to the declining fat and protein excess supply in the EU (see EQ1a and EQ6). The latter is a result of the still increasing home demand in the EU for protein relative to the supply. The EU’s share in raw milk production declined from 25.8% in 2000 to 21.6% in 2009 (e.g. Figure 2.2), with the milk quota being the main factor explaining the limited growth of the EU’s milk supply. In the same period the domestic demand (measured in terms of milk equivalent) increased by about 16% (1.7% per annum).

A further limitation of the market-share indicator for measuring competitiveness is that as long as production quotas limit overall milk supply, then maximising sales worldwide (i.e. market share) is not the main objective but instead the world market is a residual market for what is produced and cannot be absorbed internally. How much is exported depends in this case more on the supply side than on the demand side. Furthermore, it is the world market share of unsubsidised exports that counts – not total exports. Finally, if the total of the world market trade is growing fast, with new exporters and importers coming on the scene, it is inevitable that the EU will lose market share – but it would be premature to conclude from this fact alone that this means loss of competitiveness. There are just simply more competitors.

### 12.4 Market shares of EU dairy products in export and import markets

#### 12.4.1 Butter

Figure 12.1 shows the evolution of the EU’s market share in world butter trade over the period 1997-2009. The EU was a net exporter for butter. In absolute terms and focusing on the longer run trend the EU’s market position did not change between 1997 and 2009. From 2000 to 2004 the EU increased its market share in world butter exports and after 2004 this market share declined, suggesting lower market competitiveness. Note also that whereas the subsidised consumption in the EU’s domestic market strongly reduced since 2006 (decline being approximately 595 thousand tonnes; see Table 10.2) this did not lead to a spill over in terms of increased exports to the international market in these years. The decline in the EU’s total exports after 2004 is linked to the decrease of the subsidised exports. The reduction of the subsidised exports is linked to the CAP 2003 reform and is in turn associated with the reduction of the intervention prices.

The increase of the butter exports from 2000 to 2004 is linked to the need of the EU to export the fat excess supply (with public buying in stocks being relatively high). Until 2006, during a period when almost all exports were subsidised, the EU’s market share increased, while the shares of New Zealand and Australia decreased (Table 2.9).

The imports were lower than the exports and showed a declining trend. The EU did not import more in the years when it exported less because of the level of the world market prices and import tariffs.
While the extra-EU trade declined, in the same period the intra EU-trade increased (see Table 2.9), suggesting that the relative competitiveness of the EU butter with respect to provisioning the home market has increased since 2003.

Figure 12.1  EU-27 market share in world butter trade, 1997-2009, in %

Source: own calculations based on COMTRADE.

Figure 12.2 shows the evolution of unsubsidised exports in the EU. Until 2006 unsubsidised exports were relatively small (on average no more than 6% of the total exports) and increased sharply in 2007 and 2008 as a result of the strong increase of world market prices. At the same time the price of vegetable oils peaked (basic ingredient of margarine and other spreads), which positively influenced the relative competitiveness of butter. This made the EU butter temporarily more competitive, both at the international and the domestic market.

Figure 12.2  Unsubsidised exports of butter, EU-27, in 1,000 tonnes

Source: own calculations based on DG AGRI (various years and unpublished).
12.4.2 SMP

Figure 12.3 gives an overview of the evolution of the EU’s market share in SMP. Just like for butter the EU is a net exporter and plays a minor role as worldwide importer of SMP. The EU’s share in world SMP exports fluctuated more than this of butter and showed a declining trend between 1997 and 2009 suggesting the EU was losing its competitiveness in international trade.

Figure 12.4 shows the evolution of the EU’s unsubsidised SMP exports. They fluctuated depending on the relationship between the level of the world market prices compared to the EU WMP price and no clear pattern can be seen especially for the period after 2004. In 2004 about 20% of the EU’s total SMP exports were exported without refunds; in 2008 this was about 99%.

Figure 12.3 EU-27 market share in world SMP trade, 1997-2009, in %

![Graph showing EU-27 market share in world SMP trade, 1997-2009, in %](image)

Source: own calculations based on COMTRADE.

Figure 12.4 Unsubsidised exports of SMP, EU-27, in 1,000 tonnes

![Graph showing unsubsidised exports of SMP, EU-27, in 1,000 tonnes](image)

Source: own calculations based on DG AGRI (various years and unpublished).

The subsidised exports fluctuated and were higher in years with low world market prices. Because of the subsidised exports, the level of exports did not drop more in the respective years. After 2004 the level of
subsidised exports declined and this is associated with the gradual decline of the SMP intervention price. In those years the EU’s export share dropped, apart from 2007. In 2007 the EU prices were almost as high as the world market ones driving upwards the EU exports. In 2008 no export subsidies were given as the prices were still high. In 2009 there was no drop in exports because export subsidies were reactivated. In overall, the decline of export subsidies led to decline of the EU’s share in world SMP exports.

12.4.3 WMP

The EU is a net exporter of WMP, but its export share declined gradually between 2000 and 2009. Only in 2003 the export share slightly increased (see Figure 12.5). As with butter and SMP exports, the role of the subsidised exports is important, (see also Table 10.4). The exports declined because of decline in subsidised exports. Imports were virtually non-existent.

Figure 12.5   EU-27 market share in world WMP trade, 1997-2009, in %

Source: own calculations based on COMTRADE.

Figure 12.6   Unsubsidised WMP exports, EU-27, in 1000 tonnes

Source: own calculations based on DG AGRI (various years and unpublished).
As Figure 12.6 shows, part of the EU’s WMP exports is unsubsidised. In the period 2000-2006, this accounted 17% of the EU’s total annual WMP exports. In the recent years (2007-2009) with the market imbalances and high world market prices, the EU’s price-competitiveness temporarily improved. In 2008 and 2009 all of the EU’s WMP exports were unsubsidised.

12.4.4 Cheese

The EU is a net exporter of cheese. It used to be the world’s biggest exporter until 2004 but lost the first position ever since and was overtaken by New Zealand. After 2004 the declining trend of the cheese exports was stronger than before (see Figure 12.7). The reduction of export subsidies was not as high as for the other commodities, and hence the declining trend was also not as high as for butter, SMP or WMP.

![Figure 12.7](image)

**Source:** own calculations based on COMTRADE.

The EU’s share in world imports nearly halved since 1997. During this period the intra EU-trade increased suggesting that the relative competitiveness of the EU’s cheese processing sector increased in terms of provisioning the domestic market.

As Figure 12.8 shows, the EU exported consistently a significant amount of cheese to the world market without any subsidies. These exports concern traditionally high value cheeses, with a niche-product character (e.g. PDO cheese). In the period 2000-2006 about 40% of the cheese exports were unsubsidised. As the figure shows, unsubsidised exports show a steadily increasing trend.

From the case studies carried out in Italy (provinces of Emilia Romagna and Lombardy), France (Franché Comté) and Austria, the special position of PDO cheeses was highlighted (e.g. Grana Padano, Parmigiano Reggiano, Comté) as an explanatory factor for this development. As an important example, the exports of the Italian Grana Padano and Parmigiano Reggiano PDO cheeses to countries outside the EU increased from 32,804 tonnes in 2000 to 68,769 tonnes in 2010 (increase by 60%). The exports of Italy of these cheeses to countries outside the EU surpassed the exports to EU Member States by about 65%. Large parts of these exports were unsubsidised. These special quality products not only receive a price premium, but the evolution of PDO cheese prices turns out to be not very dependent on the evolution of international prices for butter and skimmed milk powder, indicating a relatively low competitive pressure from competing products.
12.5 Prices for dairy products

The evolution of the EU’s producer prices for main dairy products as well as the respective world market prices and the intervention prices for butter and SMP in the EU have been extensively analysed when answering EQ5. Here the focus is be on the main trends of the gap between the EU and the world market price and not on the price stability impact of the CAP measures.

12.5.1 Butter

The EU price is in general much higher than the world market price (in the period 1997-2004 on average by about a factor of 2). Since 2004 the EU and world market prices started to converge and part of this is because of the reduction of the intervention price. In this respect the 2003 CAP reform contributed positively in increasing the EU’s competitiveness on international markets.

12.5.2 SMP

Until 2004 the EU price of SMP was kept above the world market price whereas the intervention price acted as a price floor for the EU prices. From 2004 and onward the SMP intervention price gradually decreased allowing to narrow the gap between the EU and the world market price. As for butter the change in the intervention price was positive for boosting the EU’s competitiveness in world markets.

12.5.3 WMP

As was already noted before (see answer to EQ5, Section 9.4.3), the market price of WMP is strongly related to SMP and to butter prices. While there is no intervention price for WMP, the intervention prices for butter and SMP indirectly affect the formation of the EU WMP producer price. Also the gradual increase of the WMP price in the world market since 2003 is similar to the changes for butter and SMP. This also holds for the linkage between converging prices and changing EU policies and the effects of the 2003 CAP reform on the competitiveness of the European WMP.
12.5.4 Cheese

As became clear from the price analysis in the answer to EQ5, the EU market price for cheddar cheese moved similarly as the prices of butter, SMP and WMP and as well a gradual convergence between the EU and the world market price is observed since 2003.

However the prices of high value added cheese types moved without being highly affected by developments in world dairy markets and the changes in the CAP intervention measures. These cheese types earn a price premium, which signals they have a desired special quality which allows these products to be in the market, even when cheaper substitute cheeses are also available. The own survey confirmed this observation. For example in Austria firms successfully expanded the production of speciality cheese, which found their way to far outside the EU, often without needing any support.

12.6 Other issues on competitiveness

12.6.1 Perceptions on policy changes and competitiveness by the dairy industry

Looking closer to the impact of the CAP policy measures on the competitiveness of the dairy industries, the interviewed dairy processors were asked if the policy measures impacted positively or negatively or had no clear impact on their competitiveness on national and on international markets. Table 12.2 summarises their responses.

Table 12.2 Impact of CAP policy measures to the dairies competitiveness on national and international markets (frequency of answers given in survey)

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>National market</th>
<th>International markets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive Impact</td>
<td>No Impact</td>
</tr>
<tr>
<td>Milk quota</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Public intervention</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Private storage aid</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Aids in the milk and milk product sector</td>
<td>XX</td>
<td>X</td>
</tr>
<tr>
<td>Butter, concentrated butter and cream disposal scheme</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Welfare milk scheme</td>
<td>XXX</td>
<td>XX</td>
</tr>
<tr>
<td>National aids in the milk product sector</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Tariff rate quotas</td>
<td>XX</td>
<td>X</td>
</tr>
<tr>
<td>Import duties</td>
<td>XX</td>
<td>X</td>
</tr>
<tr>
<td>State aids</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Rural development programmes</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>School milk programme</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>

Notes: X = 20 or more respondents gave this answer; XX = 30 or more respondents gave this answer; blank = less than 20 respondents gave this answer

Source: own survey.
In general the respondents found it often difficult to indicate a clear link between the changes in the policy measures and their competitiveness. This is because several interviewed processors felt that the day-to-day issues on competitiveness relate more to actions of other competing suppliers and of the retailers. In fact they often stated that they considered the impacts of changes in CAP policy measures to be indirect. Moreover, they referred to similar measures as being important for their competitiveness on the home market as well as on the international market. This suggests that they are aware of the interaction effects between developments affecting national and international markets.

As regards the milk quota, some processors argued that it contributed to preserving the resource base (supply of raw milk by farmers), which could have not been the case if the quota would not have kept the milk in the region by a constraint. Processors who gave this answer also had a tendency to refer to the importance of direct payments and aids to keep milk production profitable in areas where there are severe natural handicaps. Private storage aid was thought as helping to benefit from better market opportunities. However, they said that the change in the milk quotas and market intervention (which are subject to this evaluation) did not cause any additional effect on their competitiveness.

With respect to the competitive position on export markets, the respondents frequently mentioned the importance of export subsidies as a necessity in order to be able to export. As such this answer indicates that these respondents acknowledge that they are not competitive without them. Respondents leading firms focusing on the production of speciality cheese did not refer to this argument, and confirmed that product differentiation could be a successful alternative for coping with pressure from competition.

The importance of state aids was mentioned to be an important factor for smaller and medium sized dairies as contributing to the modernisation of their business. Measures stimulating domestic demand were mentioned as a factor positively influencing competitiveness: the additional demand created better marketing possibilities.

### 12.7 Marketing strategies for dairies

There are different strategies dairy companies can follow in order to adapt to new policy and/or market conditions. Five strategic types of innovation for strengthening the competitiveness of the dairy industry, listed in the Oslo Manual (OECD, 2005) are product innovation, process innovation, marketing innovation, organisational innovation, and the conquest of a new source of supply of raw materials or semi-manufactured goods. From the case studies it appeared that a number of Austrian processors recently developed a new product (whey milk) in order to improve their competitive position. There are signals from the own survey among processors that, with the intervention mechanism being transformed into a safeguard provision, they were stimulated to orient themselves in another direction (Table 12.3).

| Table 12.3 Innovations in the dairy sector for selected Member States in 2009 |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|    |
| Chees            | France    | Germany   | Hungary   | Italy     | Netherlands| Spain     | UK        | Total |
| Cheese           | 218       | 202       | 71        | 350       | 34         | 13        | 43        | 931   |
| Creamers         | 11        | 17        | 18        | 18        | 2          | 0         | 12        | 78    |
| Dairy alternative drinks | 11 | 3 | 4 | 20 | 21 | 5 | 13 | 77 |
| Dairy drinks     | 24        | 96        | 30        | 69        | 31         | 24        | 43        | 317   |
| Other dairy products | 1 | 7 | 2 | 3 | 0 | 0 | 0 | 13 |
| Yoghurt          | 89        | 176       | 30        | 77        | 18         | 24        | 84        | 498   |
| Total            | 354       | 501       | 155       | 537       | 106        | 66        | 195       | 191   |

Source: Bunte et al. (2011, p.93).

As an example the reduced attractiveness of intervention stimulated processors in Ireland to invest more actively in switching to cheese production. In a recent study the number of new products introduced in 2009 was given for seven selected EU Member States. In these 7 Member States 1,914 innovations were denoted in one year (approximately 35 per week). Table 12.3 also shows that most innovations took place in cheese products, followed by fresh dairy products (yogurt) and dairy drinks. The focus to try to
innovate in these areas is confirmed by the case studies. According to Bunte et al. (2011), in general the number of product innovations has increased since 2005, in dairy as in other sectors (exceptions for the dairy sector are Spain and the UK).

Tacken et al. (2009) showed that product innovation is the most important strategy for dairy companies. The main focus is on searching for new varieties of products and introducing new ingredients that represent new functionalities of the product. The authors suggest that dairy companies more often pursue a defensive or analytical strategy than a prospective strategy.

The next most frequent type of innovation is marketing innovation. This kind of innovation is distinguished by its focus on reaching new groups of consumers by promotion activities, addressing special target groups and approaching new markets.

Setting up organizational innovation is the third important topic. By this is meant the possibility to benefit from cooperation, patenting, licensing and changing the market position.

Processing innovation comes as the fourth most important strategy. Innovating companies improve their way of production or the production equipment, i.e. through improvements in technology. Tacken et al. (2009) showed that this type of innovation positively affected labour productivity in particular.

Creating a ranking based on the number of innovations reported in the Innovation database, Arla ranks in order of innovative output (from high to low) Danone, Dairy Crest, Campina, and Nestle. EU based firms also ranked higher relative to key foreign dairy processors (e.g. Fonterra).

### 12.8 Conclusions

Competitiveness is linked both to quantities (supply, export and import volumes) as a prices (measured by the distance between EU prices and world market prices).

The market share indicators show that the EU lost market share for SMP WMP, butter and cheese in the period 2003-2006. In the preceding period (1997-2003) market shares for SMP and WMP declined, but those for butter and cheese remained both more or less stable. In the period 2007-2009 export shares remained stable (cheese) or increased (SMP, WMP), while for butter the market share continued to gradually decline. The loss in market share may suggest a reduction in the EU’s competitiveness during the evaluation period, as well as during the period before 2003. In interpreting this result it should be noted however that the EU’s share in world raw milk production declined from 25.8% in 2000 to 21.6% in 2009. Note that also the exports of dairy products (in milk equivalents) as a percentage of EU domestic supply declined over the period 2003-2006. When evaluating the period 2000-2009 there is no clear trend in share of EU exports of dairy products in total milk supply.

For most of the years between 2000 and 2009 the milk quota have been the main factor limiting the EU’s supply growth of the raw milk. In the same period the domestic demand for dairy products (measured in terms of milk equivalent) increased by about 16% (1.7% p.a.). Thus the evolution of the EU’s export market shares are co-determined by these developments within the EU. As such indicators expressing the EU’s export share in total world exports for dairy products have a limitation to measure changes in competitiveness. A potential sharp growth in the world market and a continuous increase in the EU’s domestic consumption of dairy products can both lead to a decline in the EU’s export share, without reflecting a structural loss in competitiveness.

Export subsidies for butter SMP, WMP, cheese declined since 2003. After 2006 the increasing demand for EU milk fat absorbed the excess supply (see also the discussion on the structural excess supply of fat in Section 5.5). The increased demand for fat came from several directions: world market prices for fat containing dairy products (e.g. butter, cheese, WMP) increased triggering EU (unsubsidised) exports in these products. The simultaneous high increase in vegetable oil prices in the period 2006-2008, also improved the relative competitive position of butter with respect to products based on vegetable oils (margarine and other spreads) in international and domestic markets. Since these developments were strongly driven by external factors there is no indication of a structural increase in competitiveness on the world market.
The above analysis showed that until 2004 the EU markets for processed dairy products have been affected more by the policies applied to the dairy sector (intervention prices, and in particular their decrease, and adjustments in export subsidies) than by developments in international markets. This is related to the often large price–gap between EU and world market prices, which in turn followed from the high intervention prices in the EU relative to world market price levels. In such a situation the EU is generally not competitive with respect to external markets since exports refunds are necessary for being able to export and compete with foreign suppliers (a notable exception are differentiated cheese products). This result was confirmed by the processors responding to the survey, who also pointed to the importance of export refunds.

Since the 2003 CAP reform there is a clear linkage between the observed convergence between the EU and the world market prices for dairy products and the reduction of the intervention prices for butter and SMP and the increasing prices at the world markets. Both the intervention price decline and the world market price increase have been equally important in reducing the price gap. This has as such improved the relative price-competitive position of the sector: lower support amounts per unit of product are needed to bridge the gap with the world market and export products; world market prices may more frequently surpass EU prices and when so, the EU can export products. However, since in an absolute sense prices for dairy products in the EU were still structurally above the world market level, the EU was not competitive (being able to export without subsidies) for most dairy products (exceptions are niche dairy products). The picture changed between 2007 and 2009: then developments at international markets affected the EU’s domestic market and because of the high prices worldwide, the EU increased its unsubsidised exports substantially.

As regards the indicator on the volume of unsubsidised exports, unsubsidised cheese exports increased over the period 2000-2009, with 2007 and 2008 being exceptional years with very high unsubsidised cheese exports. From the case study analyses (Italy, France, Austria) it was highlighted that exports of PDO cheeses to outside the EU increased significantly (for example exports of two main Italian PDO cheeses increased by 60% in the period 2000-2010). These high value, high quality products are not very sensitive to competition from other dairy products due to their uniqueness and speciality character. The unsubsidized exports of butter, SMP, and WMP had a more incidental character and lacked a clear structural trend.

The share imports for butter, SMP and cheese in total world imports show a tendency to decline over the period 2003-2009. For WMP this share has been close to zero for the whole period 1997-2009.

Summary of findings for each indicator, EQ8

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Expected result</th>
<th>Evidence found</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of EU in world trade of milk products by product</td>
<td>Evidence sought: counteracting effects expected from declining price gap and growing world demand</td>
<td>The EU lost market share for SMP WMP, butter and cheese, in the period 2003-2006. In the preceding period (1997-2003) market shares for SMP and WMP also declined, but those for butter and cheese remained both more or less stable. In the period 2007-2009 export shares remained stable (cheese) or increased (SMP, WMP), while for butter the market share continued to gradually decline.</td>
</tr>
<tr>
<td>Share of unsubsidised exports in total EU exports by milk product</td>
<td>Expected increase for special cheeses, but not for other dairy products</td>
<td>The volume of unsubsidised cheese exports showed a steady increase over the period 2000-2009, with 2007 and 2008 being exceptional years with very high unsubsidised cheese exports. From the case study analyses (Italy, France, Austria) the role of PDO cheese was highlighted.</td>
</tr>
<tr>
<td>Indicator</td>
<td>Expected result</td>
<td>Evidence found</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Price-gap between EU and world market prices for milk products (butter, cheese, SMP, WMP)</td>
<td>Price gap was expected to decline due to the decline in EU intervention prices, adjustments in export refunds, and increasing world demand</td>
<td>Since the 2003 CAP reform a strong convergence of EU and the world market prices for dairy products has been observed, which was partly due to the reduction of the intervention prices for butter and SMP and partly to the increasing prices at the world market. With the market disturbance of 2007 the price gap became even negative.</td>
</tr>
<tr>
<td>Number of product innovations</td>
<td>An increase expected as a response to mitigate the increasing competitive pressure</td>
<td>There is some evidence that the number of innovations has increased since 2005</td>
</tr>
</tbody>
</table>