Monitoring Agency

Flexible Management of EU Milk Supply
Expertise commissioned by the European Milk Board (EMB)

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Our starting point
Key stakeholders
Forecasts and reality

Forecasts are fine – but reality changes quickly

Forecast export price cheddar in USD/100 kg

Source: OECD-FAO Agricultural Outlook (several years)
Milk crisis: The future has already started
Globalisation and new challenges

- De-regulation of EU milk market(s)
- Surplus and falling farm gate prices
- Strong impact of volatile global milk prices on EU milk prices
- Crisis 2008/09 after price peak 2007

Development of farm gate milk price in the EU (real fat, ct/kg)

Source: Circa.eu Basic Dairy Statistic
Impact of the crisis on dairy farms in EU-27

Output, cost, margins in milk specialised farms EU-27

Source: EU-KOM (2013) Dairy farms report, FADN data
...with large differences between EU member states

Milk net margin (in euro/t) in milk specialised farms

Loss of income

Farm net income per annual work unit in milk specialised farms (in euro)

Increase of liabilities...

Liabilities in Euro/ha in milk specialised farms in Germany (classified by European size units)

Source: FADN data
...and postponed investments

Investments in euro/ha in milk specialised farms in Germany

- 10-<40 ESU
- 40->100 ESU
- > 100 ESU

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Source: FADN data
Dramatic increase in farm exits from 2007 to 2009

- EU-27: One in three milk producers quit
- EU-15: One in five milk producers quit
- EU-10: Particularly strong decrease

➡ EU milk supply still secure in the future?

+ Expensive crisis management
Why we need new market instruments
First steps...

Milk package and safety net

Reports (EU-COM, EU Court of auditors, German competition authority)

- More competition for raw milk prices and therefore more negotiation power for dairy farmers necessary
- Milk package: good direction, but not sufficient

Safety net of CAP

- Intervention: price level too low + not tackling the source
- Direct payments: necessary, but no answer to volatile prices and not a suitable crisis instrument
...but new answers needed

Prices rise, but do not cover the cost of milk production

Development of farm gate milk price in the EU (real fat, ct/kg)

Source: Circa.eu Basic Dairy Statistic
Global milk market: some opportunities and a lot of risks

EU milk surplus increases risks

- Less opportunities in global markets than promised
- Global market with few participants and speculative/psychological influences
- Environmental and climate-related risks
- Risks related to international financial markets

Export cheese in third countries 2012 (in Million euro)

- 63% < 5 €/kg
- 27% 5-<7,5 €/kg
- 8% 7,5 -<10 €/kg
- 2% > 10 €/kg

Source: EU external trade data base, own calculations
Uncontrolled milk surplus

A challenge for the stability of EU markets and prices

Following the example of Switzerland?

or

Striking a new path – as the USA are likely to do?
Unequal growth of milk production in EU-27

Over and under delivery of milk quota 2011/12 in % in EU-27

Source: MIV (several years), LEL (2012)
Growth limits reached

Limits to growth of production in milk regions almost reached

- Availability of land (biofuels and milk compete for land)
- Cows reaching their production limit
- EFSA 2009: Zero-grazing increases risks to animal welfare
- Society concerned about ethical questions
Who is going to milk the cows?
What is needed

Reliable and flexible framework

- Survey on milk supply and demand
- Instrument for flexible milk market management

➡️ to stabilise supply and demand in milk markets
➡️ to stabilise prices at a level covering cost of production
➡️ to strengthen the resilience of EU milk producers
➡️ to stabilise production of milk also in lessfavoured areas, mountain areas and Eastern Europe
➡️ to mitigate the risks resulting from global milk market influences
Scope of action

Realisation of Art. 39, Treaty on the functioning of the EU

- to stabilise markets
- to ensure a fair standard of living
- to ensure that supplies reach consumers at reasonable prices

Past experiences of scope of action

- The delivery boycott 2008 had a temporary stabilising impact on the milk price in Germany
- Reduction of 1 to 2 % of EU milk volume had a stabilising effect on EU milk markets during the milk crisis in 2009
- Comparable effect of scarcity of EU milk supply (535.000 tons) in 2012
EU policy measures have to balance the interests of all stakeholders
Solution: Monitoring Agency
Basic aims and requirements

Aims

- Flexible adjustment of milk volume to demand to restore market equilibrium
- Stabilisation of milk prices to cover the average cost of milk production
- Ensure security of milk supply in the EU

Requirements

- The Monitoring Agency is a European agency/institution
- Decisions are generally binding
Concept Monitoring Agency

Producers
Milk price necessary to cover production costs

Milk market
Current milk price

Dairies
Possible sales of milk at cost-covering price

Monitoring Agency
Market analysis at least every four months

Representation:
Producers, Consumers, Dairies, Policy makers

Recommendation for the milk volume to be produced
Supply management in detail

Decision on the milk volume to be produced

Implementation by public administration
- Adjustment of base quantity
- Via existing administrative bodies

Implementation by producer organisations
- Adjustment of base quantity
- Compulsory membership for farmers
- Independent from dairy industry

Control loop/body
Control of implementation at the level of individual farms and producer organisations

Penalties in case of non-compliance
Steering instruments

Increasing/reducing of volume at farm and producer organisation level

**Prerequisites:** Base quantity and external trade protection

1. **Reserve**
   - 3-5% of delivery rights for adjustment of the base quantity
   - Additional delivery rights are limited in time

2. **Voluntary production cuts against compensation**
   - Implementation through public tender
   - Funding: through super levy and private market regulation fund

3. **Strategic storage**
   - Crisis reserve, Balancing of natural variations in milk production volume
   - Funding through own resources
Milk price corridor

Milk price per kg in Eurocent vs. Time in months
Advantages of flexible milk supply management

- Security of supply and stable consumer prices
- Secure income for milk producers
- Prevention instead of reaction to a crisis
- Cost-neutral for public finances / no agricultural subsidies
Thank you for your attention