



2017

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Position Paper

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Simplifying and Modernising the CAP: Competitiveness in Agricultural Production

CONTEXT

In developing CAP for 2020 policymakers need to be mindful of a number of key factors about the EU dairy sector.

ECONOMIC FACTORS

- ***The EU dairy industry makes a major contribution to the EU economy***

Dairy processors are a major component of the EU dairy industry supply chain. 151.9 million tonnes billion¹ litres of milk from 700,000 thousand dairy farmers is processed by 12,000 milk processing and production sites across Europe².

- ***Long term prospects for the global dairy sector are strongly positive***

It is generally agreed that the growth prospects for the global dairy industry are strongly positive. According to the Commission's latest projection in 2016 global demand for dairy products is expected to grow by 1.8% import increase per annum³, equating to a requirement for 16 million tonnes of milk equivalent per year. The main driver of demand growth will be the growing world population and rising incomes.

- ***EU dairy farmers and processors have invested heavily in the expectation of growth***

Over the past 3 years approximately €6 billion⁴ has been invested by EU dairy processors in additional processing capacity on the expectation of growth. The majority of this capacity has been for milk powders for export.

¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Production_and_use_of_milk,_EU-28,_2014.png

² http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/Facts_and_Figures/EDA_EWPA_Economic_Report_2016.pdf

³ https://ec.europa.eu/agriculture/sites/agriculture/files/mp-mto-2016-fullrep_en.pdf

⁴ http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/Facts_and_Figures/EDA_EWPA_Economic_Report_2016.pdf



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- **A significant and increasing volume of EU production is committed to exports**

Exports to countries outside the EU have always played a major role for the EU dairy sector.

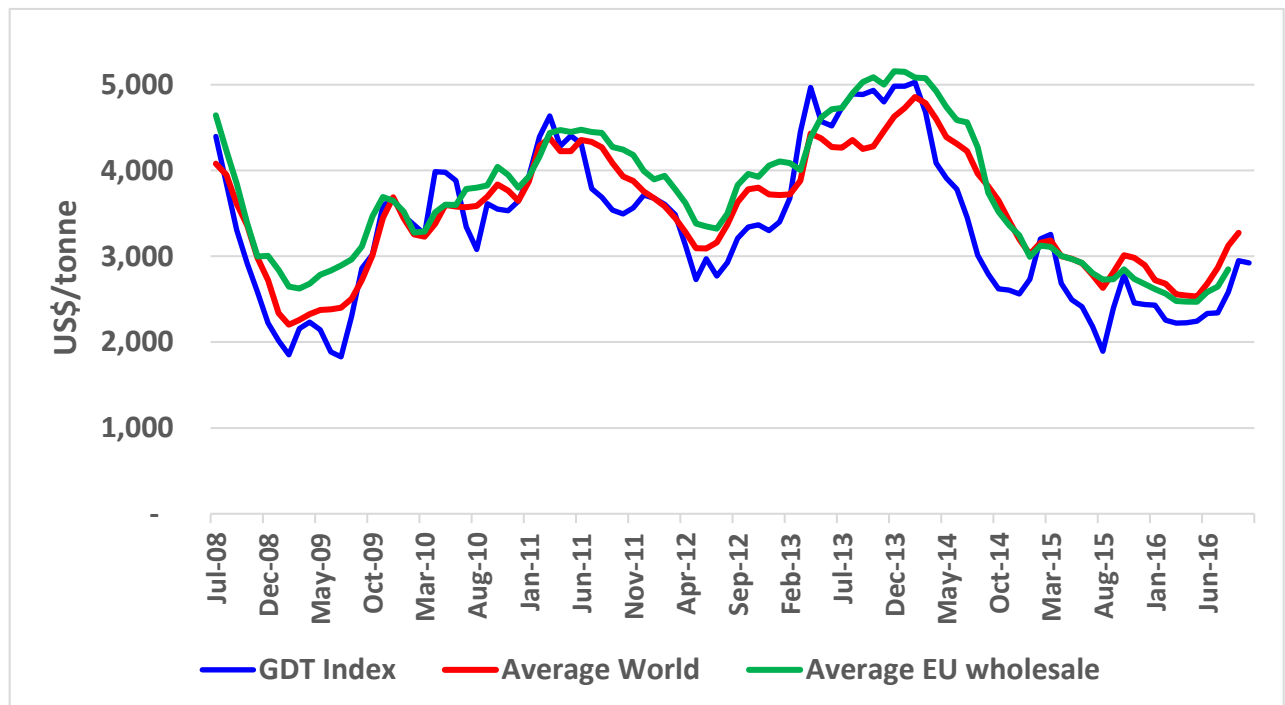
1994	6%
2000	9%
2010	9%
2015	11%

Table: Percentage Share of EU Milk Production Exported

EU exports currently account for 36% of trade in world dairy products⁵ in terms of volume.

- **The industry is exposed to volatile and cyclical world market price trends**

The exposure of the industry to the world market means that the EU shares in the price trends prevailing in the world market. Indeed, dairy commodities (cheeses, powders and butter/butteroil) make the global dairy market, which shapes the EU raw milk price paid to farmers.



Graph: EU and World market prices

⁵ <http://www.clal.it/en>



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- **Private sector mechanisms to mitigate the effect of milk price volatility have yet to fully mature and to prove its use in the dairy sector**

As a result of operating in an intensely competitive market place dairy processors do not have sufficient margin to shield dairy farmers from price volatility. Dairy processors could do so with the engagement and support of third parties such as major customers or financial institutions. As in the EU, dairy futures markets remain underdeveloped, the EU should continue to play a role in terms of securing an efficient safety net.

- **Price signals to farmers affect supply but with an inevitable delay**

Farmers respond to price signals but with an inevitable time delay. It takes time for farmers to bring additional animals to maturity before they can start producing milk in response to high prices. In response to low prices farmers will continue to feed animals to protect income levels until they no longer have the cash to do so. Despite these lags price signals ultimately drive supply responses.

- **The sector needs to continuously restructure**

Market pressures means that the entire sector, both at the farm and processing level, has to continuously restructure its operations to maintain its competitiveness and cost efficiency.

- **Dairy farms enjoy a strong position in the dairy sector supply chain**

The dairy sector is well organised with coops and private dairies with strong links between the farmers and their dairies. Some farmers prefer to supply a private dairy; others prefer to be member a dairy coop. Both systems have their benefits and constraints.

Taking into account the proportion of milk accounted for by dairy co-ops and the strength of the relationship between dairy farmers and many private dairy companies through contracts, dairy farmers are powerfully represented in the dairy industry supply chain.

SOCIAL FACTORS

- **Dairy products** in Europe play a major role in a healthy and sustainable diet

Dairy products account between 9% to 16% (in different European MS) of the calorie intake of the EU diet. Dairy products play a vital role in providing key nutrients.

Calcium	52%
Vitamin B2	36%
Vitamin B12	32%
Phosphorous	29%
Iodine	26%
Protein	20%

Table 2: % share of EU nutrient intake accounted for by dairy



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- **The dairy sector is a major employer**

Milk and dairy is the most important agricultural sector in the EU and present in all EU Member States. The EU dairy sector employs more than 300,000 people throughout Europe in high-value industrial jobs on milk processing sites especially in rural areas across the European Union⁶.

- **Dairy cow welfare remains a priority and rests on the well-being of the sector**

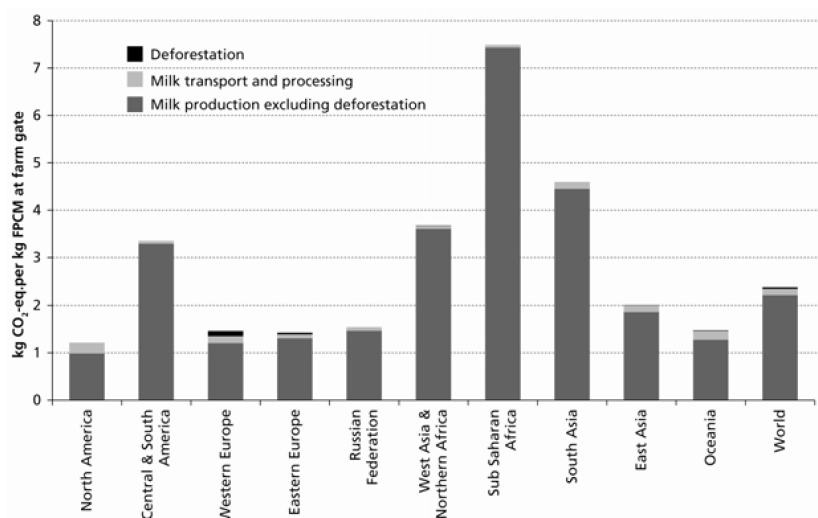
The well-being of 23.6m dairy cows rests on the prosperity of the sector.⁷ Any support to better explain to the external world the current high-level standards implemented throughout Europe would be of major interest. Good husbandry practices are already a reality on the EU farms.

ENVIRONMENTAL FACTORS

- **The dairy sector accounts for major portion of EU agricultural land**

Dairy farmers manage 21.9% of EU agricultural land⁸. In the EU dairy system, the daily feed ration of a dairy cow is predominantly, sometimes exclusively based on a permanent grassland culture. Large portions of the land area used for dairy farming have no viable alternative to grazing livestock farming. The public support of agriculture must take into account the role of (permanent) pasture land in terms of biodiversity and carbon sequestration.

- **Greenhouse gas emission from EU dairy farming are amongst the lowest in the world**



Graph 2: Estimated GHG emissions per kg of FPCM at farm gate, averaged by main regions and the world (source: FAO)

⁶http://eda.euromilk.org/fileadmin/user_upload/Public_Documents/Facts_and_Figures/EDA_EWPA_Economic_Report_2016.pdf

⁷ http://ec.europa.eu/eurostat/statistics-explained/index.php/Milk_and_milk_product_statistics

⁸ [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Utilised_agricultural_area_by_land_use,_EU-28,_2013_\(%C2%B9\)_\(%25_share_of_utilised_agricultural_area\)_YB16.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Utilised_agricultural_area_by_land_use,_EU-28,_2013_(%C2%B9)_(%25_share_of_utilised_agricultural_area)_YB16.png)



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This shows the environmental benefits of sustaining milk production in the EU.

INTERESTS OF THE EU DAIRY PROCESSING SECTOR

For the EU dairy processing industry to reach its potential it requires from the competencies falling within the scope of the EU:

Milk Production

- A sustainable supply of raw milk that is:
 - o Economically: competitively priced, of requisite quality, with the possibility for production to grow to meet market opportunities
 - o Socially: safe, produced using production methods acceptable to society, particularly in respect of animal health and welfare
 - o Environmentally: EU milk production is a leading force at global level when it comes to mitigating the environmental footprint of dairying.

Inputs

- Secure and competitively priced supply of energy and feed.

Markets

- Preserving and restoring consumer confidence in the safety of dairy products and their relevance to the diet, clarifying misconceptions surrounding anti-milk messages.
- Protecting existing markets and creating of new market opportunities

EU Regulation

- A regulatory environment that is evolutionary, predictable and not subject to arbitrary changes
- Regulations that are properly developed with time and opportunity for the sector to input its perspective, any further regulation taking into account its impact on costs and competitiveness for farms and for dairy processors.

EDA RECOMMENDATIONS FOR THE CAP

EDA's recommendations for the future CAP are designed to address the needs of all three pillars of sustainability; the economic, social and environmental. We are seeking evolution in the current CAP which would be an improvement providing clarity, predictability and stability.

In addition, by seeking to ensure that the EU dairy sector can maintain and improve its competitiveness and realise opportunities for growth, EDA's recommendations also address the needs of food security and the overall objectives of the EU Commission: jobs, growth and competitiveness.



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SOCIAL

- **Promotion by the EU of the nutritional benefit of milk and dairy to consumers**

The strength of the EU market remains based on the confidence of consumers in the relevance of dairy products to their diet. The EU should continuously seek to reinforce this confidence in its messaging to consumers, and seek to fight misleading messages on the benefits of dairy products, on farms husbandry practices, on industrial processing.

- **Maintenance of the EU school milk scheme**

The EU school milk scheme plays an important role in persuading future generations of the benefits of dairy products so it is important to the long-term sustainability of the sector.

- **Facilitate the promotion of health benefits of dairy products to consumers**

The Nutrition and Health Claims regulation hinders the ability of the dairy industry to develop products that address consumer concerns over healthy eating. The regulation acts to benefit those operators that have the resources to generate the research science to necessary justify claims for highly processed foods. Milk and dairy products must be allowed to claim their nutritional benefits to the consumer and must not be subject to national labelling schemes which only focus on single nutrients without considering the unique and balanced natural blend of macro- and micronutrients of all milk and dairy products

ENVIRONMENTAL

- The future CAP must foster and support the development and implementation of private sustainability / animal welfare schemes established by dairy companies
- The future CAP must allocate public support of research on / implementation of systems for phosphate and nitrogen cycles in the dairy sector
- The future CAP must take into account in a balanced way the added value of (permanent) pasture land, in terms of biodiversity and carbon sequestration and as the key element that structures our European landscapes.

ECONOMIC POLICY RECOMMENDATIONS

- **Continued gradual evolution towards greater market orientation**

The productive potential of the EU dairy sector was constrained by the market management policy previously operated under the CAP. This system distorted investment opportunities and prevented the industry from maximising its competitiveness and efficiency.

The EU should continue the evolution of CAP policy towards greater market orientation, but this should be at a pace that gives dairy farmers and processors sufficient time to adapt without unnecessary disruption. Education and competence training at both farm and factory levels, should be further developed and supported to strengthen competitiveness and volatility resilience.

The EU should not reverse its course, especially since the quota regime was only abolished on the 1st April 2015.



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- **Protection of the integrity of the EU single market**

The greatest benefit to the dairy industry comes from the existence of the EU single market for agricultural produce. This gives all EU dairy processors a strong market in which to operate. There still exist opportunities for improving the operation of this market, notably through better communication between veterinarian authorities (e.g. EU intra-trade export certificates).

The EU must resist initiatives that fragment or distort the operation of the EU single market, in particular it should continue to resist national measures for the introduction of mandatory country of origin labelling.

- **Maintenance of the existing EU competition law framework**

The efficient operation of the EU single market for agricultural produce requires the application of a consistent framework for competition law. Under the CMO, Producer Organisations have been granted exemptions from EU competition law that would permit the creation of POs controlling up to 33% of raw milk supply in any individual EU Member State.

The EU should not provide further derogations from this framework to any part of the dairy sector supply chain. This would risk the creation of competitive distortions that would undermine the sustainability of the supply chain and threaten future investment.

- **Provision by the EU of a safety net to manage extreme downward price volatility**

Price volatility is one of the biggest challenges facing the sector. Until such time as private sector instruments to mitigate the impact of price volatility mature then the sector needs the EU to provide an effective safety net.

In the recent down turn intervention purchasing once again showed itself to be effective in shielding the sector from the full impact of the declines in the world market. The EU should keep intervention in place and it should be subject to periodic review to ensure its effectiveness.

The EU should also examine whether new policy instruments could be developed to protect farmers from the impact of price volatility, in particular it should examine whether it would be feasible to develop some form of subsidised income insurance scheme, keeping in mind that any new measures should not be at the expense of direct payments.

At the same time, new and existing policy instruments should be operated in a way that is compatible with the development of the dairy futures market. At farm level, the development of risk management schemes should be sought upstream such as feed costs' management.

- **No form of mandatory or EU-financed supply management**

The EU should not adopt mandatory supply management as this would require the EU to manage the global supply/demand balance to the benefit of its international competitors. This can be considered also as a step backwards of the ongoing EU policy.

The recent production reduction regulation had no material impact on the market situation as it only compensated dairy farmers for decisions they had made already.

The difference between supply management and intervention purchasing is that supply management removes productive capacity whereas the latter does not.

- **Protection of the Geographic Scope of milk production**

Within the limitation of preventing distortions to the EU single market, Member States should be given tools within the rural development pillar to maintain the geographic scope of milk production where this is demonstrably necessary for the economic sustainability of specific regions.



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- **No further regulatory interference in commercial relations between producers and processors**

The position of dairy farmers in the supply chain is protected by a competitive market for raw milk, the existence of a co-op sector, the opportunity to create Producer Organisations and the option open to Member States of regulating contracts.

Supply chain relationships in the dairy sector were scrutinised prior to the formulation of the Dairy Package. The Package, which has been integrated into the CAP, gave dairy farmers the opportunity to create Producer Organisations. It also gave EU Member States the option of regulating contracts of which 13 states have chosen to do so.

Limited uptake of the opportunity to create Producer Organisations reflects the time required to build the trust necessary for their formation and a judgement by farmers on the adequacy of existing market arrangements.

Respect of the status of existing models such as private dairy companies and coops.

Both private and co-op capital is required for the industry to reach its full potential. The relations between producers and processors are regulated either by the Dairy Package or by the Statutes/internal rules of the coops. Measures implemented by policy makers should respect the specificities of both models.

- **Protection of dairy terms and standards in the single market**

Dairy terms should remain protected and for the use of the dairy industry. They should not be made available to substitute products that wish to exploit the attributes of dairy whilst challenging consumer confidence in dairy products. To further deepen the single market, EDA asks for common cheese definitions to be fully aligned with CODEX standards 283/1978. The protection of the single market principle requires common food legislation. National (origin) labelling schemes undermine not only the good functioning but also the principle of the single market.

- **Greater market access opportunities through positive FTAs for the EU dairy sector and minimisation of barriers to trade**

EU should seek through FTA opportunities for the further growth for the EU dairy sector.

Trade policy should be mindful of the sensitivities of the EU dairy sector. The greatest benefit to the dairy sector would come from FTAs with countries that have large and growing demand for dairy products. Given the limited human and budgetary resources of the Commission, it is advisable to prioritise the relevant third countries. Any option of a sectorial agreement on dairy with a major dairy importer (e.g. China) should be fully explored.

- **Facilitation by the EU of innovation in the dairy sector**

Improvements in productive efficiency are being continuously made at farm level and in processing by new technologies. If the sector is to remain internationally competitive then the EU should facilitate the introduction of new technologies.

POLICY FRAMEWORK

- **Pursuit of Simplification of a Common Agri-Food Policy**

The diversity of policy objectives addressed by the CAP has resulted in excessive complexity. The Commission should continue to pursue opportunities for simplification both within individual policy instruments and in the overall structure of the CAP. The structure of the CAP should be driven by the need to ensure effective and targeted policy instruments and be kept under a stringent common



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framework across the Union. Greening and cross-compliance measures are burdensome and not tailor-made for the farmers. On greening in particular, measures should be connected with the goals, and not with the means to carry-out the environmental objectives. It should be targeted towards the needs of the individual farmer. The individual farmer must be able to choose which greening requirements are practical in his particular case.

- **Co-Funding and Renationalisation**

Consistent with the need to maintain the integrity of the single market the EU should avoid the use of national co-funding and measures which could effectively result in the renationalisation of agricultural policy, as these risk the creation of competitive distortions and a highly-fragmented policy environment in which the industry would have to operate.

At the same time, compensatory allowance is extremely important to maintain agriculture in less favoured areas. Effective and non-trade distorting national co-financing could circumvent greater land abandonment.

- **EU Policy for rurality, natural resources and food**

The EU agricultural policy must turn into a common EU policy on rurality, natural resources and food.

This would streamline all policy fields to which the dairy and agri-food sector is exposed and help to fully deploy the social, economic and environmental potential of our sector.

- **UTPs**

UTPs should be dealt through separate policy instrument. EDA acknowledges the work of the Supply Chain Initiative. There is at the same time a need for a European Framework where there would be a harmonisation of principles for the National Authorities, so they can work on the same baseline. General definitions can be set by the EU. It is up to Member states to decide if legislation is needed at their level. Organisations can make an inquiry checking the different implementations, along with inquiries on the levels of concentration.

- **Self-Regulation**

The EU should recognise the ability of the industry to self-regulate. The performance and acceptance of sustainability and animal welfare schemes set up by cooperative and private dairies are an outstanding example for this capacity. Before embarking on new regulatory initiatives, the Commission should give the industry the opportunity to examine whether it can undertake self-regulation as an alternative.

POLICY OBSERVATIONS

In the following area, the EDA does not have strong policy preference but would offer the following observations.

- **Future of Direct Payments**

Direct payments play a vital role in stabilising income for individual farmers but they also retard industry restructuring and consequently industry competitiveness in the very long run. Direct payments must remain beyond the next budgetary period with the current national flexibility in design. The single farm payment should be also maintained as it provides an income insurance at farm level.