Sustainable dairy economics in Europe: a positive environment is key

EU dairy sector can remain one of the most competitive regions worldwide if its potential is fully used

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For quite a few years, the European dairy sector, milk farmers and processors, have been preparing the end of the quota regime, scheduled for 31 March 2015. Although the overall EU milk production has not been near the EU quota levels over the last years, most of EU milk producers have already increased their production levels and milk processors have been investing heavily in new processing sites, with a focus on drying towers. The EU dairy sector is prepared remarkably well for the post-quota dairy environment.

Sustainable dairy economics in Europe

The EU dairy sector undertook indeed the necessary steps and measures for the new environment, but what about the longer term? Today, the long term perspectives for the EU dairy sector are very promising. The EU Commission states that the market prospects are really favourable, both on the world and domestic markets. World demand is expected to remain dynamic. Dairy markets will turn into demand-driven markets, a development which has already started. The increase in world population, the bigger proportion of middle-class households in emerging markets and the continuous urbanisation trend will only contribute to this development.

The long term perspectives are positive, but short term market imbalances are realistic. The basically secured supply base for milk in Europe can suffer from bad weather conditions in Europe, but also from meteorological events across the world, that impact feed prices and hence the production in Europe.

Disease outbreaks, food crisis or trade turbulences have a huge impact potential on the shorter term demand side for dairy.

Market disruptions induced by a mismatch of supply and demand are balanced out by price reactions – volatility is a normal economic phenomenon.

Even the EU quota regime and all the public tools for milk market management has not prevented price peaks and dramatic price falls.

Sustainable dairy economics need a positive environment

Today, the EU is by far the most important producer of dairy products in the world. Out of the ten biggest global dairy companies, five have their headquarters in Europe. The EU dairy sector stands for more than 1 million milk farmers, 12.000 milk processing sites and 300.000 direct jobs. In order to maintain this pole position and remain one of the most competitive dairy regions worldwide, a positive environment for dairy in Europe is crucial. The EU dairy sector needs societal and political acceptance and support. After all the dairy and agricultural reforms since 2003 in Europe, it is time for a stable political framework enabling predictability for the future direction of dairy policies.

This request for a stable political framework also covers the numerous food, health, consumer and environment policy developments. For example, some of these latest regulatory measures will impact the way to positive sustainable dairy economics:

- The reform of the School Milk Scheme – an important scheme that accounts so far for almost 0,5% of today's internal dairy consumption in Europe, allowing us to keep milk and hopefully also dairy products on the daily menu of children and teenagers. Hence, improving their nutrition and health status and shape their future dairy consumption habits.
- The protection of dairy designations is more than ever at stake because of the misuse of the term and branding of milk by alternative products such as soy drinks. The negative comparison with dairy products damages the positive image of milk and dairy.
- Milk and dairy products are produced from one source: milk. All over Europe high quality milk originates from healthy dairy cows. Specific quality criteria relating to a region can be safeguarded and marketed under special European schemes, like PDO or PGI, which transport extremely well the reputation and the value of the European dairy processing. Even if local/regional or national voluntary indications of the origin of the milk used in a dairy product can be an efficient marketing tool, a compulsory origin labelling for dairy products would have a huge impact on our business: the establishment of separate milk collection and milk storage systems needed for such an obligatory origin labelling would seriously damage our competitiveness..
- The inclusion of the dairy industry into the European Emissions Trading Scheme (ETS) for CO_2 emissions costs already money to the whole sector – and the new European framework has clearly the objective to make emissions rights more expensive than they are today. The exception for at least some dairy products from today's ETS helps to save money today, but we need to work on the framework of the future ETS.

The long term trend for dairy looks certainly bright, but technical, political and regulatory developments need to be closely monitored on a day-to-day basis. In doing this we can help legislative bodies make the right decisions and safeguard the competitiveness of the EU dairy sector. It is EDA's role to follow these developments thoroughly. At EDA we constantly assess the potential impact of strategically important developments in terms of process and content, we make our members aware of potential changes and assess together with our members their eventual impact. On that basis, EDA can truly influence the framework for dairy companies and guarantee positive sustainable dairy economics in Europe in the long run.

The European Dairy Association and all its member associations are committed to do what it takes to maintain the strong competitiveness of the EU dairy sector and to optimise the use of its future potential in Europe. The only condition is a positive environment – regulatory, societal, political – to operate in.

Despite all challenges, we are confident that we can further achieve a sustainable dairy economic environment for the European industry.