

Opinion of the Committee of the Regions on ‘Evolution of the market situation and the consequent conditions for smoothly phasing-out the milk quota system — second “soft landing” report’

(2013/C 218/05)

THE COMMITTEE OF THE REGIONS

- calls for urgent complementary studies to assess the territorial impact of quota abolition
- calls for a realistic evaluation of production, internal consumption and export prospects over the medium and long term
- calls for a comparative study of the milk policies of the large milk-producing countries and a detailed study of the Swiss experience
- calls for an impact assessment of ongoing bilateral trade negotiations
- calls for the possibility to be studied of adapting to the EU certain measures taken by other countries to manage potential milk market crises, in particular the measures of the forthcoming Farm Bill 2013-2017
- proposes extending the possibility of managing the volumes stipulated in the milk package to mountain milk
- calls for security of supply and the sustainability of the European Union’s internal markets to be made a priority
- proposes, in the context of export strategy, giving greater support to innovation in high-added-value dairy products
- proposes establishing solid partnerships with the countries of the southern Mediterranean and the Middle East that do not have sufficient land or water to produce milk at a reasonable cost and that constitute a milk market that is more easily accessible than Asia
- calls on the Commission to redefine a coherent rural and milk development project for mountain areas, for disadvantaged milk production areas and for Member States where most of the milk is produced by very small farms.

Rapporteur	René SOUCHON, President of the Auvergne Regional Council (FR/PES)
Reference document	Report from the European Commission to the European Parliament and the Council — Evolution of the market situation and the consequent conditions for smoothly phasing-out the milk quota system — second ‘soft landing’ report COM(2012) 741 final

I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

Following up its opinion of 12 May 2011 on the Milk Package ⁽¹⁾

1. notes that in many Member States and regions milk production is a key pillar of the regional economy and agricultural added value. Milk production therefore has an important environmental role, has an enduring impact on the cultural landscape and is an important employer in rural areas;

2. notes that the reform process needs to take account of regional and structural differences in milk farming and the milk industry. In many regions, most milk is produced on small and medium-sized family farms, while in other areas milk production is dominated by large agricultural holdings. It is essential, therefore, that reforms involving the milk sector not damage the family businesses that contribute most to sustainable development;

3. notes the need to better guarantee the incomes of milk producers to make sure that they can have a decent living from their work, to protect the future of the milk-production sector and to ensure the supply of quality milk products for Europe's consumers;

Good prospects in 2010-2012 for a soft landing

4. recognises that the European Union has experienced neither an explosion in milk production nor an unduly sharp drop in the value of quotas, due to the ‘free’ 8 % increase in their volume between 2008 and 2015, but notes that this increase in volume has twice provoked a steep rise in production that has threatened to overwhelm processing plant, especially the towers for drying milk powder, in several countries;

5. notes that the situation on world markets has been favourable since 2010, enabling milk products from the EU — especially butter and milk powder — to maintain their price on these without recourse to export refunds, but that this is no guarantee of world prices holding over the medium and long term;

But less and less relevant options

6. contends that the arguments for abolishing quotas and liberalising the milk market put forward by the European Commission since 2003 are increasingly controversial;

7. notes that no progress has been made in WTO negotiations for the past ten years and that the EU's proposals in Hong Kong in 2005 to cancel refunds on milk products have ceased to be relevant;

8. notes that the milk sector is not included in bilateral negotiations with the USA, New Zealand and Australia;

9. notes that most of the other major milk producers, such as India, China, Japan, and South Korea, have maintained or — in the case of the USA — even stepped up their protective measures in the sector. In the United States, the strengthening of public regulation of the milk market being discussed in Congress envisages the guarantee of a minimum margin for producers above the costs of feeding the animals, as well as a measure, obligatory for all, to reduce supplies in the event of a crisis;

10. notes that the consumer interest argument advanced by the European Commission to justify milk market liberalisation is unsubstantiated; in particular, the steep fall in prices in 2009 was not — or was hardly — reflected in prices to the consumer;

⁽¹⁾ CdR 13/2011 fin.

11. notes that increased margins in the agro-food and large retail sectors have been achieved at the expense of producers, with producer prices plummeting compared with consumer prices;

12. notes that studies conducted in Canada have shown the dairy products shopping basket to be no more expensive in that country — which has a quota system — than in the United States, despite very different farm gate prices (around 50 % higher in Canada);

13. thinks that milk price volatility is very costly for the whole sector, but especially for producers, whose incomes become unpredictable and discourage entry into the milk sector;

14. notes that it is butter and milk powder surpluses — expensive to store and to export — that resulted in the introduction of milk quotas in 1984 and that the reduction of surpluses by quotas led to significant budget savings up to 2003. Considers that, even if the quota system no longer responds completely to current problems, its abolition must be accompanied by suitable regulatory tools;

A marginal world market whose instability is already affecting the European market

15. notes that trading of milk products on the world market, principally as powder and butter, involves only 6 % of world production, but that it is the prices of these two products that more and more determine the farm gate price of milk in the European Union, although most milk achieves higher prices in the internal market;

16. notes that EU exports to world markets account for around 10 % of the Union's production, in the form of both cheese and lower added-value milk powder, and regrets that the investment announced by dairy companies is mostly in drying towers;

17. notes that the EU's principal competitor on world markets is New Zealand, whose production costs are half those of European producers, and that New Zealand, via Fonterra, a cooperative that has a quasi-monopoly, exports more than 90 % of its production, mainly as butter and powder, thus alone accounting for a third of the world market and enjoying a firm foothold in the markets of Asia. Fonterra also controls the futures markets;

18. notes that even if Asia offers a potential opening for the European Union, countries such as China and India also plan to develop their own production to the utmost in order to reduce dependency on the vagaries of the market to feed their populations;

19. also notes that, when it comes to cheese, the European Union has made inroads into the Russian, Japanese and Korean markets, but little progress in quantitative terms on the Chinese market;

An unduly slanted Commission analysis

20. thinks that the measures proposed by the Commission for reforming the Common Agricultural Policy, particularly the milk package and the Single CMO Regulation (including imports), lack the necessary mechanisms for public regulation of milk production and markets and imports; they should also be complemented by additional regional policy instruments to ensure balanced development of the regions;

21. regrets that the Commission's second progress report confines itself to a macroeconomic analysis of the milk market situation, using a very general model, and to numerous hypotheses, some of them already outdated;

22. regrets that the Commission fails to provide a detailed quantitative and qualitative analysis of the prospects of the EU market in the medium term, broken down by large groups of countries, taking account, in particular, of the diversity of farm sizes and methods, production conditions and marketing methods;

23. regrets that the report includes no comparative analysis of the policies of other large milk-producing countries that are rivals and/or customers of the European Union;

24. notes that the High Level Experts' Group (HLG) on milk had suggested tracking developments in Switzerland following the removal of quotas, which had given rise to a 7 % increase in milk production in the country, bringing in its wake a fall in average prices of between 20 and 30 %. Structures and production conditions in Switzerland are different from those in the EU, and Switzerland also prepared for and implemented quota abolition differently. However, the Commission's report appears not to take account of this experience, which should be analysed in more depth;

25. notes that the European Commission appears more concerned about the limits of competition law when it comes to hundreds of thousands of producers, than when it comes to multinational milk processors and distributors who control more than half of European milk;

Stalemate on the regional impact

26. regrets in particular that the Commission's report ignores the territorial impact — economic, social and environmental — of lifting quotas for all the European Union's regions;

27. notes that more than two thirds of dairy farms are located in areas that are disadvantaged by virtue of their soil and climate conditions, are situated far from large cities, or have very small herd sizes;

28. notes that mountain milk accounts for around 10 % of milk from the EU-27, but constitutes 2/3 of milk and involves 3/4 of producers in Austria, Slovenia and Finland, and that the corresponding figures also remain very significant in a further ten or so countries. In most of these humid mountain regions, and also in outermost regions, milk herds are the principal users of grasslands, keeping landscapes accessible and inhabited and so benefiting tourism, biodiversity and the environment;

29. also points out that the cow's milk produced in the outermost regions represents a major part of the output of the states concerned and, as is the case in upland regions, dairy farming bears the main responsibility for maintaining the region's agricultural landscape, with a positive impact on tourism and the environment;

30. notes that in most of the new Member States in Eastern Europe, milk collection remains very uncertain. It has fallen since 2005 and depends mainly on large herds in Hungary, the Czech Republic and Slovakia. Collection has also fallen in Bulgaria and Romania despite rigorous restructuring, to the benefit of informal milk distribution. Prospects appear brighter in Poland and, to a lesser extent, in the Baltic countries, with the emergence of family herds of 10 to 30 cows when farmers have access to training and credit;

31. considers that this family model of farming, making the most of local forage possibilities, especially grasslands, best reconciles the future of the milk sector as a whole, the expectations of society and those of farmers;

32. considers that second pillar aid will be not be enough to compensate for the damaging impact of price instability of milk and inputs, discouraging people from starting up in a business that requires heavy long-term investment;

33. asks for consideration to be given to the problem of milk herds that are heavily dependent on feedstuffs in areas with low fodder availability and to the importance of implementing mechanisms to protect this sector from fluctuations in cereal prices and to support production in regions where it is of major socio-economic importance;

34. calls for specific attention and support for regions where restructuring has resulted in a sharp fall in traditional milk production but where the sector has managed to survive over recent decades; local production must be exploited here, using all existing instruments, including short marketing circuits;

Limitations of the milk package

35. thinks that the four measures in the milk package — the use of contracts, producer organisations, interbranch organisations and transparency — are necessary but insufficient, and are not intended to offer guarantees that volumes, prices and revenues for producers can be adequately managed;

36. considers that the milk package lacks the instruments to mitigate the adverse effects of removing milk quotas in the regions and on the family model of farming, which makes the most of local forage possibilities, especially grasslands; feels and that this abolition will result in the concentration of production in the most advantaged farming regions, with increased risks to the environment;

37. notes that cooperatives enjoy a dominant — not to say monopoly — position in the main milk-producing countries in the north of Europe and have announced an increase in collection at the request of their members;

38. notes that the use of contracts as set out in the milk package — and from which cooperatives are exempt — will affect at best only 40 % of the volume of milk produced in the whole of the EU and that forecasts will be impossible throughout the market;

39. considers that producers' organisations are necessary but in some cases lack real negotiating power vis-à-vis dairies if they can only be vertical organisations within a branch — in effect a kind of merger — and that producers will not be able to hold their own in business negotiations unless they can exercise a countervailing power that comes from being an organisation of producers in a particular production area that is able to negotiate with a number of dairies;

40. considers that the milk package tools will be unable to meet the goal of guaranteeing producer incomes and proposes to include production costs in negotiations on farm gate milk prices on the basis of the results of the Farm Accountancy Data Network (FADN) by country or even by region;

41. calls for a return to a public policy of management of security stocks, raising the intervention price and maintaining exceptional export refunds in exchange for a policy of milk production that is better tailored to the evolution of demand from the internal market and from external markets for quality products;

42. notes that the management of supply for PDOs and PGIs is a positive point of the milk package but concerns relatively few countries and a minority share of European production (even in France, these PDO-PGIs make up only 10 % of the country's total milk production, but 30 % of mountain milk);

Inadequate Single CMO Regulation draft

43. considers the current European Parliament proposals on voluntary production caps in the event of a crisis, which would enable the Commission to grant aid to milk producers who voluntarily cut their milk production by at least 5 % for at least three months (renewable), with levies for producers who increase their production in the same period to be insufficient to mitigate a fall in prices in the event of overproduction;

44. considers that an effective crisis management system must be able to respond promptly and that this requires centralising national and European information on output per farm over several years and defining the state of crisis via reference prices and/or margins, which presupposes direct management, either by the European Commission or by a European regulatory body;

Recommendations

45. calls for urgent complementary studies to assess the territorial impact of quota abolition by groups of countries,

regions, particularly outermost regions, and soil and climate zones — mountain areas, disadvantaged areas, intermediate mixed farming areas (livestock farming, lowlands) — so that the risks of relocation and abandonment of farms in numerous regions can be anticipated and, if possible limited;

46. calls for a realistic evaluation of production, internal consumption and export prospects over the medium and long term (2020-2030) by type of product, factoring in the increasing volatility of prices on the world market. The absence of any guidance of supply and of any policy on public stocks in Europe and the United States can only heighten this volatility, which is incompatible with the development of a European milk sector;

47. calls for a comparative study of the milk policies of the large milk-producing countries and a detailed study of the Swiss experience, from an economic, social and environmental perspective;

48. calls for an impact assessment of ongoing bilateral trade negotiations, with particular emphasis on milk production regions;

49. following up its opinion of 4 May 2012 on *The reform of the common agricultural policy and rural development policy post-2013*, considers rebalancing aid to be a vital step and feels that the Commission's proposals are insufficient for introducing greater competitiveness in small and medium-sized farms making the most of local forage possibilities, areas facing specific natural constraints, outermost regions, island regions and certain fragile industries;

50. calls for the possibility to be studied of adapting to the EU certain measures taken by other countries to manage potential milk market crises, in particular the measures of the forthcoming Farm Bill 2013-2017, which provides *inter alia*, for producers enrolling in the system, a guaranteed margin over feed costs coupled with a reduction in supply; calls for these crisis management measures adopted by other countries to be examined to evaluate their impact on the world milk market;

51. proposes extending the possibility of managing the volumes stipulated in the milk package — limited for the moment to PDO and PGI cheeses — to mountain milk in relation to the new optional quality mark for mountain products;

52. thinks that in fact the 'mountain product' mark could be a useful tool for giving the milk sector regional identities, assuming that appropriate implementation methods were adopted accordingly;

53. proposes that, before putting in place any measures to replace milk quotas, the adoption of a moratorium on ending quotas be studied, so that the mechanism could possibly be extended until the end of the 2019/2020 milk year in order to be able to ascertain the consequences of abolishing them in more detail; at the same time calls on the Commission to adapt the safety net for the milk market and to introduce regular surveillance of the world market and assessment of public policies in key producer countries;

54. calls on the Commission to redefine a coherent rural and milk development project for mountain areas, for disadvantaged milk production areas, for outermost regions and for Member States where most of the milk is produced by very small farms;

55. calls for security of supply and the sustainability of the European Union's internal markets to be made a priority, particularly through the distribution of milk to schools and old people's homes and for food aid and by revising and simplifying support and promotion measures for milk products;

56. proposes, in the context of export strategy, giving greater support to high-added-value dairy products to help develop products better suited, for example, to the new consumers in countries in the Maghreb, the Middle East and Asia, and supporting this strategy with appropriate measures;

57. proposes establishing solid partnerships with the countries of the southern Mediterranean and the Middle East that do not have sufficient land or water to produce milk at a reasonable cost and that constitute a milk market that is more easily accessible than Asia.

Brussels, 30 May 2013.

*The President
of the Committee of the Regions*
Ramón Luis VALCÁRCEL SISO
