

Opinion of the European Committee of the Regions — The future of the dairy industry

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THE EUROPEAN COMMITTEE OF THE REGIONS,

I. BACKGROUND ANALYSIS***Developments in the dairy products market***

1. notes that in its report COM(2014) 354 final of 13 June 2014, drawn up on the basis of data available in mid-March 2014, the European Commission estimated that the milk market would remain favourable in the short to medium term and concluded that the abolition of quotas should go ahead. The Commission acknowledged that there were still issues to be resolved, but considered it too early at that stage to measure the impact of ending quotas, preferring to wait until 2018 to put forward new legislative proposals;

2. considers that, since March 2014, highly favourable development in the market and in prices has been reversed as a result of three factors: a high level of global production, a slowdown in global demand and the Russian embargo. With the strong increase in European production, these three factors are already driving milk prices down;

3. notes that forecasts for the first half of 2015 predict a sharp fall in prices and dairy product stocks that could exceed 2009 levels, with considerable disparities between and sometimes even within Member States;

Implementation of the Milk Package

4. notes in the Commission's report that the use of contracts is still negligible, which makes it difficult to rebalance the relationship in the producers' favour. Cooperatives, which account for more than 60 % of milk in Europe, were exempted from contracting and production controls, as they announced beforehand that they would collect all milk from their member producers. This severely limits the scope of the measures contained within the Milk Package;

5. observes that the large increase in production and collection throughout the European Union in 2014 demonstrates that contracting has not had (and will not have) an effect on overall supply control within the EU, dairy companies now being in open competition with each other;

6. notes that the marketing sector — the last link in the food chain for milk — often uses consumer sales of milk and dairy products as loss leaders, offering them at low prices and passing the reduction back up the chain to the producer, who is ultimately the one who bears the consequences of these aggressive marketing policies, with the result that in many cases the sums received by producers do not cover their production costs;

7. notes that specific measures (which were not set out in the Milk Package), adopted in response to the Russian embargo, have clearly proved to be inadequate, in view of the losses incurred since August 2014;

8. notes that the provisions contained in the Milk Package for managing the supply of goods with the status of protected designation of origin (PDO) still seem to be underused (with three cheeses affected in France and two in Italy) and would like to have more information from the European Commission about on-going applications and calls for awareness of this option to be raised in the Member States and for the Commission to simplify access to the Protected Designation of Origin (PDO) and Protected Geographical Indications (PGI) schemes;

Post-quota prospects

In the short term:

The impact on dairy production in the European Union

9. notes that the analysis carried out for the conference 'The European dairy industry: developing beyond 2015' of 24 September 2013 and the report COM 2014-2024 show that growth in EU milk production depends primarily on the global market, which accounts for only 7 % of global production but is highly competitive. Powdered milk constitutes two thirds of the quantity supplied by three main exporters: the EU, New Zealand and the USA. The OECD and the FAO predict that global demand will grow by around 2 % per annum up to 2023. There is a continuing need to identify and develop new markets, increase the EU global market share, secure fair access for EU exporters and stimulate export growth. The improvement of knowledge transfer, research, innovation and measures to improve quality and labelling will bring further added value to EU dairy products and increase their competitiveness on the internal and world market;

10. observes that this analysis, carried out in September 2013, predicted that over time an increasing amount of milk produced in the European Union would be transformed into products with a higher added value at the expense of unprocessed bulk production;

11. notes that this analysis acknowledges the increasingly unequal distribution of added value (in favour of processors) along the dairy supply chain;

12. notes that it is widely recognised that abolishing quotas will lead to a greater concentration of production on large farms and in certain regions of the EU;

13. is of the opinion that the EU does not have operational tools capable of limiting the volatility of farmgate milk prices;

14. also notes that a large proportion of recent investment in the European dairy sector focuses more on drying towers for powdered milk than on transforming milk into products with a high added value — such as cheese (50 % for powders in comparison with 20 % for cheese ⁽¹⁾);

15. is of the opinion that concentrating production in larger farms does not in itself guarantee efficiency or income, as the Danish example demonstrates;

Territorial impacts and their side effects

16. notes that, for the post-quota period, a number of studies ⁽²⁾ have confirmed the concentration of dairy production in the most productive areas with the highest dairy production levels and the lowest collection costs and the contraction or abandonment of milk production in regions deemed to be disadvantaged or vulnerable. Points out that in these regions — whether they be remote, upland or outermost regions — dairy production provides an economic activity that is difficult to replace and that also plays an important social and environmental role;

17. regrets the paucity of studies into the fate of disadvantaged areas where dairy production has gradually been abandoned, with the Commission's 2014 report stating merely that 'it is too early to see significant effects of the Milk Package on the milk sector in disadvantaged regions';

18. In particular, the Committee regrets the lack of specific studies of regions where dairy production is not only crucial for creating and maintaining employment but also provides a strategic lever for other economic sectors, such as tourism. These cases are rarely reported in terms of the number of farms and local jobs, and never in terms of their contribution to public goods (water quality and landscape, biodiversity, product quality, green tourism and regional markets etc.) or their contribution to other sectors of the economy;

19. notes that recent studies by the Commission and experts both predict an acceleration of the decline in milk production in almost all countries in the eastern EU (with the exception of Poland), where dairy farming is often the main agricultural activity. This will make it harder for rural areas to maintain their population;

20. also feels that it is urgently necessary to quantify how many jobs would be lost in 'intermediate' crop-growing and cattle-breeding areas if milk production was abandoned in favour of cereals;

⁽¹⁾ Commission report: Prospects for agricultural markets in the EU 2014-2024.

⁽²⁾ Smooth phasing out of the milk quotas in the European Union. Study drawn up by Progress Consulting and Living Prospects for the Committee of the Regions, November 2014.

21. highlights the fact that existing safety net measures such as public intervention and private storage aid are not suitable tools to address persistent volatility or crisis in the milk sector, which is worsened by the Russian embargo and is hitting the Baltic States and Finland the hardest;

In the medium term:

22. notes that despite an end to quotas, the latest forecasts published by the European Commission show a limited increase in European production, due in particular to environmental constraints, which are increasingly acute in some Member States. However, the production increase of 2014 demonstrates that a favourable milk price combined with a good feed year can result in a considerable and completely unforeseen surplus of milk;

23. notes that, according to the Commission, the average milk price for the period 2016-2024 should be in the region of EUR 350 per tonne, with fluctuations ranging from EUR 300 to 400 per tonne in eight out of the ten years and becoming more severe in two out of the ten years;

24. considers such volatility, and the huge disruption and uncertainty that it causes for the milk and dairy sector in the EU, to be incompatible with significant investment in farms and with new producers going into business. These factors will be felt particularly in the mountainous and outermost regions, which face the most constraints and have the least potential for economies of scale;

25. notes, furthermore, that EU companies face competition from a few powerful global exporters (including New Zealand, the United States and Australia) which have historically had access to Asian markets and which have a decisive influence on the price of dairy products on the global market;

26. observes that we should not confuse growth of the global market with growth in global demand. The latter is fairly steady in the medium to long term, while the global market develops in a more unpredictable fashion, accounting for only 7 % of production, and the surpluses of a few countries;

27. considers it unacceptable that farmgate milk prices in Europe should be so closely linked to global prices, given that 90 % of EU produce is destined for sale on the European market;

Risks and opportunities for the European dairy industry linked to the commercial agreements currently under discussion

28. is of the opinion that both demand for dairy products and export opportunities will be subject to the effects of the different free trade and regional trade agreements currently being negotiated;

29. notes that the major risk to European dairy farming and to the consumer deriving from these agreements will come from the lowering of quality and health standards for Europeans. The non-recognition of PDO status called for by the dairy industry also poses a risk;

30. also feels that the agreement currently being negotiated with the United States on the harmonisation and substantial reduction of customs duties, included in the EU's negotiating mandate, presents both risks and opportunities for the dairy industry, as customs duties for dairy products are usually much higher in Europe, whereas American milk producers receive more support under the Farm Bill 2014-2018;

31. notes that the EU is in the process of concluding an Economic Partnership Agreement with West Africa, which aims to abolish customs duties with this group of countries on at least 75 % of its exports, including powdered milk. However, strong EU exports will undermine the development of dairy farming and small dairies in those countries and accelerate the migration of the rural population to urban areas and to Europe;

II. POLICY RECOMMENDATIONS

Make full use of the tools available at European level

Enhance the safety net

32. notes that under the new CAP (2014-2020), the dairy industry benefits from a safety net, based on a regulatory framework that allows the Commission to react to exceptional circumstances;

33. is of the opinion that the current safety net (EUR 217/t) does not offer high enough levels of protection in the event of a fall in milk prices;

34. proposes that the Commission should make the intervention price more reflective of production costs and better attuned to market changes. The current intervention price, unchanged since 2008, needs to be revised to take into account increasing production and input costs and should be revised on a regular basis;

Improve the instruments in the Milk Package

35. notes that for the countries that decided to make milk contracts compulsory the establishment of producers' organisations has not produced the intended results, as processors have continued to negotiate directly with producers by imposing very short contracts and no milk price guarantee. The Committee would therefore propose that priority be given to the establishment of local and regional producer organisations, which are not dependent on a single dairy and which would benefit from much greater negotiating power, to take the place of direct producer-dairy contracts, along the lines of the system operating in Quebec;

36. considers it vital to strengthen the role of producers' organisations so that they play a clear economic role in managing prices and supply;

37. suggests making contracting more effective by expanding the mechanism to the whole industry, including large-scale retailers;

38. proposes encouraging producers to join and participate in organisations that can process milk and reduce the number of links in the chain;

39. proposes supporting EU domestic consumption of dairy products and issuing rules on labelling that provide full information about origin, production method, industrial processes used, etc.;

40. proposes prohibiting the marketing sector from using practices that lead to the downgrading of milk and dairy products, so that they cannot be used as loss leaders in its marketing policies;

41. recommends improving the operation of the European Milk Market Observatory and putting in place the necessary resources for this observatory to become a genuine steering mechanism, and not just a tool for post hoc observation. To this end, the European Milk Market Observatory should have an early-warning system for emerging market crises. For this reason, it is vital for the observatory to produce monthly data on a sub-Member-State scale, to take account of differences in circumstances between the European regions. The Commission should pass on the early warnings to the Member States and stakeholders and immediately take all appropriate measures;

Optimise the use of measures provided under Pillar I

42. reiterates the fact that Member States may opt for coupled support for dairy producers, up to a set percentage of their Pillar I national envelope. They may also award a payment of up to 5 % of their national envelope to areas that face natural constraints. The POSEI arrangements (Programme of Options Specifically Relating to Remoteness and Insularity) cater for the outermost regions of the European Union and are designed to take account of geographical and economic handicaps in these areas, but not to tackle crises triggered by the deregulation of the milk market;

43. considers it necessary, in recognition of the increased production and processing costs in the outermost regions, that additional support be provided for the POSEI programme in order to compensate milk producers for the impact of market deregulation and enable them to remain competitive with producers elsewhere in the EU;

44. fears, however, that a large disparity in the type and level of support for EU farmers may occur as a result of countries being able to make their own choices and that redistribution will often remain too weak in comparison with differences in production costs;

Optimise the use of measures provided under Pillar II

45. notes that Member States could employ a strategic approach to address specific needs within the dairy industry, by developing specific thematic sub-programmes to limit the restructuring of the dairy sector, for example;

46. notes that support for areas subject to natural constraints and other specific disadvantages includes compensation payments for loss of income and additional production costs;

47. is of the opinion that this arrangement must also apply to milk producers located in an area subject to natural constraints. These payments are particularly important as a means of preventing the abandonment of farmland and rural exodus;

48. notes, however, a significant reduction in the budgetary resources available for rural development policy at European level, which could delay the modernisation of small farms, thus preventing them from meeting environmental protection standards;

49. for a more viable future, encourages sustainable on-farm investment and agricultural extension activities so as to improve milk yields and on-farm efficiencies, e.g. through better milking facilities, improved breeding, and ICT systems and to ensure a safer workplace; accordingly supports additional measures from the European Commission and EIB to inject investment and liquidity into the industry;

50. is concerned that the co-financing requirements applicable to measures under Pillar II will lead to large disparities between producers, given the variation in budgetary resources available in Member States;

51. recognises the need for consistency in EU policies addressing climate change and food security issues and recommends that support be given to the most carbon-efficient and environmentally sustainable dairy production systems;

52. recommends that the support related to milk production in disadvantaged regions should be developed and maintained with a long-term strategic approach. The legal framework for disadvantaged regions should be reinforced;

Other measures

53. proposes strengthening the 'aid scheme for the supply of fruit and vegetables, bananas and milk in educational establishments' and is disappointed at the European Commission's decision, as part of its 2015 Work Programme, to suspend the legislative proposal under discussion in the European Parliament and Council pending the results of a new evaluation of the school milk and school fruit schemes;

54. takes the view that distributing milk in schools could have a real regional impact, by providing a targeted supply of local produce of good environmental quality to regional authorities as part of a short supply chain, and would allow children to reconnect with agriculture;

55. considers that full use should be made of research measures to develop innovative high-value dairy products in high-growth markets such as medicinal nutritional products and nutritional products for infants and athletes;

56. considers that research, development and innovation should be prioritised to better enable EU processors to compete internationally;

Examples of tools available outside the European Union

57. notes that in the United States of America, the 2014 Agriculture Act reviewed support mechanisms for the dairy industry. The new Margin Protection Programme for dairy producers offers compensation when the difference between the price of milk and the cost of animal feed falls below a set amount. A minimum margin over feed costs is guaranteed through public funds; higher margin levels can be chosen, with producers bearing the costs. These new uncapped provisions for large herds will encourage an increase in US production and exports;

58. notes that in Canada, adjustments of internal market production and milk price indexation are based on the actual cost of production rather than on global prices. This results in significantly higher and more stable milk prices than in Europe. This supply control mechanism relies on a producers' organisation based in a single marketing office in each province;

59. suggests that the Commission build on these models as it rethinks the type of support and the system of structuring dairy producer organisations by large production area;

Proposals at European level

60. notes that the European Parliament's Agricultural Committee had adopted a compromise amendment to the Dantin report (Single CMO) at its meeting on 23 and 24 January 2013, regarding a provision that established support for producers who voluntarily reduce their production in the event of a serious crisis;

61. suggests creating a European centre for monitoring new activity to analyse data relating to new activity in the dairy sector;

62. notes that the Market Responsibility Programme put forward by the European Milk Board (to be applied when the milk market is threatened by imbalance) is a cheap and flexible proposal that should be examined and assessed as to its feasibility and effectiveness by taking 2014 as the test year;

63. as voluntary codes of practice are not working, recommends that the European Commission bring forward proposals to ensure that all those involved in the food supply chain, including liquid milk and dairy products, may be treated fairly and to restrict any anti-competitive practices that are not consistent with maintaining sustainable supply chains;

64. wonders, in particular, about the possibilities offered by the Single CMO Regulation, mainly Articles 219, 221 and 222, in terms of implementing this type of proposal;

Conclusion

65. notes that in many Member States and regions, dairy production is an essential pillar of the regional economy and of agricultural added value. The processing of milk into a plethora of cheeses, following millennia-old traditions specific to each EU country and region, makes a crucial contribution to the identity of the regions, and contributes to the positive image of the European agri-food industry in the world. Moreover, the cheese industry helps keep employment in rural areas, protects the landscape and limits the loss of farmland brought about by urbanisation;

66. recommends that the European institutions put in place flexible and effective additional instruments so as to stabilise the milk market and dairy producers' incomes in times of crisis, not least by improving the efficiency of risk management measures, in particular those designed to stabilise incomes, combat market price volatility and guarantee milk prices; to ensure food security, it is necessary to simplify and lighten administrative procedures and remove red tape;

67. recommends that, in order to promote exports of European dairy products bearing official quality labels (PGI, PDO, etc.), EU authorities encourage investment in logistics platforms for exports, support training for professionals and foster promotion schemes targeted on emerging markets;

68. advises European authorities to strengthen the protection of European PDO and PGI products when international agreements are being drawn up, not least with a view to preventing counterfeiting and combating the imitation of EU products;

69. with respect to dairy production in mountainous areas and areas north of the 62nd parallel, calls for convergence of compensation payments for natural handicaps, the restoration of milk collection aid (co-financed by the Common Agricultural Policy budget), and support for the promotion and development of a 'Mountain produce' label to be applied to dairy products, subject to an adequate level of food self-sufficiency;

70. calls for a sizeable rural development plan for the Baltic States, Bulgaria, Romania, Slovenia, a large part of Poland, and Greece. These countries have small herds and dairy farms are in the majority. Their future seems likely to be compromised after the abolition of quotas, even though these farms remain the foundation of rural communities today.

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