

# **REPORT OF THE CONFERENCE ' THE EU DAIRY SECTOR: DEVELOPING BEYOND 2015'**

24 SEPTEMBER 2013

## **EXECUTIVE SUMMARY**

The conference 'The EU dairy sector: developing beyond 2015' held on 24<sup>th</sup> September 2013 brought together the actors of the dairy supply chain, as well as representatives of the EU institutions, Member States and experts from research and economic bodies. The purpose of this conference was to explore the new challenges and the most likely trends that will be faced by the EU milk sector and whether additional instruments were needed and feasible taking into account the end of the quota system in 2015.

Experts presented the results of various studies carried out on the milk sector, all stressing the challenges represented by the end of milk quotas in 2015 such as grasping the opportunities of new international markets, managing extreme volatility and maintaining milk production in certain fragile areas. The six independent experts coordinated by Ernst & Young came to the conclusion that a reinforcement and timely use of existing CAP tools would be appropriate to accompany the milk sector beyond 2015. The European Milk Board (EMB) called for more market regulation, presenting the idea of confining price fluctuations within a tunnel and operating a supply management system. The Movement for a World Agricultural Organisation (MOMAGRI) underlined as well the need for a stronger safety net in the context of extreme volatility and presented a price-based management system. The European farmers and agricultural cooperatives (Copa-Cogeca) presented the market situation and the tools available.

Subsequent discussion took place in two parallel workshops on the above mentioned topics and continued in a concluding plenary session. The various views expressed during these meetings are summed up below.

### **Market balance and competitiveness**

The future of the EU internal market balance will also depend on developments on the world market, which are expected to bring new opportunities for the European milk sector even if some participants warn that such opportunities can only be genuine if they generate enough added value for farmers to cover their production costs.

**Volatility** (both for dairy product prices and for input prices) is one of the major challenges for the years to come and most of the participants expressed their concerns about its possible impacts at producers' level.

The instruments currently in place in the Single CMO (safety net) proved to be effective in the past, and could be reinforced in periods of serious crises and better targeted. In that respect, a prompt intervention in the market should be ensured, in order to avoid that the measures are taken too late. For some participants, current instruments are not enough to cope with volatility, and therefore to ensure a decent (cost-covering) price for farmers. There were some positions favourable to adapting the market tools to production costs, e.g. strengthened use of safety nets, voluntary or compulsory freeze of milk production and of milk products (commodities notably) in times of crisis and counter-cyclical payments.. Some participants are of the view that a supply management solution might ensure that actors take on board their responsibility in times of crisis.

Many independent experts and participants felt there's an unbalanced distribution in added value throughout the **supply chain**. Producer organisations (POs) should have an appropriate size to be effective, in particular to deal with the higher concentration of dairies. It has been mentioned that the role of POs and Interbranch Organisations (IBO) could be quite limited in redistributing bargaining power, given the current concentration at dairies' level. But they might bring other added values in terms of organisation of the production, logistics or services. The role of the IBOs should be strengthened at EU level with calls for the same rules to apply throughout the EU for the dairy sector.

In terms of **transparency**, the idea of implementing a European Observatory announced by the European Commission was broadly welcomed. The Observatory should be able to monitor the margins, facilitate information at producer level and take into account the diversity of the milk sector.

### **Sustainability of milk production including its territorial dimension**

In terms of **sustainability**, there is a need to find instruments to counter potential negative effects in most vulnerable regions. Experts presented the divergent developments expected between regions: 25% of countries/regions likely to produce more, 50% of countries/regions expected to produce less.

Some concerns about the sustainability of the two emerging production models has been expressed with, on the one side, environmental, animal welfare and financial limitations and, on the other side, production drop or abandonment, loss of employment and decreasing vitality of rural areas affecting many regions.

It has been noted that better tools should be in place to encourage young people and that the economic and social fabric in the various regions of Europe should be maintained. The diversity of regions is the richness of Europe. The importance of cooperation between farmers has been stressed.

As regards the **territorial dimension** of the EU milk production, some experts consider that EU farms will continue with the existing trend, while others consider that milk quota expiry, associated to more volatile and decreasing prices and increasing costs of inputs, will accelerate differences between European regions. In some of the most affected regions, milk production plays a significant role.

It has been raised that the richness created by milk production must be redistributed throughout the Union, notably to counterbalance the transport handicap of outermost regions with some participants underlining the need to compensate handicaps and to use at best the new instruments of the reformed CAP.

In conclusion, the Conference stressed, with a large consensus, the need for transparency, so that changing trends can be identified at an early stage and market signals are conveyed to all actors involved without delay. A combination of a Market Observatory with the existing possibilities opened by the CAP reform, in particular with regard to crisis situations, will help accompany the milk sector beyond 2015. Some other ideas for regulating prices and incomes were suggested by participants and need to be further discussed: strengthened organisation of producers and food chains with stricter rules, strengthened use of safety nets, voluntary or compulsory freezing scheme of milk production in times of crisis, and kinds of counter-cyclical payments. The conference report will be transmitted to the Council of the European Union and the European Parliament, before the end of the year. It will be food for thought in the context of the

report to be submitted by the Commission to the European Parliament and the Council by June 2014 on the milk market situation and the functioning of the Milk Package.