

Common organisation of agricultural markets (CMO): simplify the common agricultural policy (CAP), creation of one single Regulation ("single CMO Regulation")

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In accordance with the provisions of Council Regulation (EC) No 1234/2007 (the Single CMO Regulation), the Commission presents its second "soft landing" report examining the evolution of the market situation and the consequent conditions for smoothly phasing out the milk quota system. The report:

- describes the evolution of the market situation for cow milk from the middle of 2010 (end date of the first soft landing report) and outlines medium term prospects;
- examines the phasing-out of the milk quota system.

Market developments to date: volatility persisted in the dairy market until the end of 2010, although not to the extent observed in 2007-2009. It receded somewhat in 2011, as well as in 2012. Prices in 2010 and 2011 fluctuated at high levels, leading to increased production and a price correction in the first half of 2012. Prices have started to move upwards again in the third quarter of 2012.

Cow milk collection in the EU has consistently increased over the past three years: + 1.4% in 2010, + 2% in 2011 and some 1.5% in the first seven months of 2012 compared to the same period in 2011.

Average EU farm gate milk prices increased from April till November 2010. They stayed around 33 cents/kg until April 2011 and increased again to 35.1 cents/kg in November 2011 as a weighted average for the EU-27. A seasonal correction appeared in December 2011, January and February 2012, amounting to -2%. As a matter of comparison, the seasonal correction had been -3% at the beginning of 2010 and -1% at the beginning of 2011.

However, in 2012, the downward pattern continued until the summer, exceeding the seasonal trend and responding to pressure from increased milk supply in and outside the EU. The latest EU average farm gate milk price is estimated at 31.3 cents/kg for August 2012, which is 9.5% below the average price of July 2011, but 1.2% above that of July 2010 and 27% above the lowest level reached in May 2009.

The latest available spot milk prices and dairy product prices were both pointing to a recovery in the near future, which should be followed at a later stage by higher farm gate milk prices.

Medium term prospects: medium-term prospects for dairy markets appear favourable. Continued expansion of world demand, resulting from global population and economic growth, combined with increasing preference for dairy products are expected to be the main drivers. Sustained import demand, particularly from emerging countries, would have a positive impact on dairy commodity prices, thus fuelling EU export potential. Nevertheless, EU market shares are projected to slightly deteriorate for most dairy products, as a result of a higher rate of increase in exports from other countries

EU milk production is projected to continue increasing from 2012 onwards at a moderate growth rate but to remain below the potential growth rate provided by the phasing-out of the milk quota regime. It is

projected to register a cumulative increase of about 8% from 2009 to 2022, while milk delivered to dairies would increase by around 10%. By the last quota year (2014-15), EU milk deliveries are projected to be some 6% below quota. The expiry of the milk quota regime is projected to have a limited impact on milk deliveries at the aggregate EU level.

Smooth phasing out of milk quotas: the report notes that there remains one 1% annual increase (on 1 April 2013) until the expiry of the quota system on 1 April 2015.

Year on year, milk quotas are gradually becoming less relevant, as actual milk output falls short of ceilings in a majority of Member States. The number of Member States exceeding their quotas remains limited and the surplus production accounts for less than 0.2% of all milk delivered or covered by direct sales.

After a slight contraction of milk deliveries in 2009, favourable farm gate milk prices and good weather conditions prompted increased production levels in both 2010 and 2011. When increased production - not only in the EU but in all milk supplying regions around the world - exerted downward pressure on farm gate milk prices, milk production started to respond by slowing down in the subsequent months. Those developments show that production response is gradually shaping according to market signals but also that weather conditions are a true player in the dairy market.

With milk quotas becoming less and less relevant, EU milk supply can better respond to market opportunities, farmers' response to price signals is less distorted and efficiency gains can be achieved through restructuring.

The milk quota price should be decreasing with the shortening life of the quota regime and this is actually the case in a majority of Member States where the quota price is very low or equal to zero.

The report concludes that **whilst medium and long-term prospects are favourable for the dairy sector, this does not prevent short-term market fluctuations**. Price developments since the publication of the first soft landing report show a trend towards higher levels with some ups and downs along the curve. Within the latter, the current difficulties endured by dairy farmers in certain areas more severely hit by the hike in the price of feedstuffs cannot hide the overall positive picture of the sector.

In the long run, the balance between supply and demand depends on a large variety of factors, ranging from economic parameters to policy decisions. In this respect, [the Milk Package](#), which has been fully applicable from 3 October 2012, offers tools for operators in the dairy supply chain to attune their supply to the market.

Both the evolution of milk production versus milk quotas, and the downward trend in quota prices show that “soft landing” is on track. In the vast majority of Member States, quotas are no longer relevant to limiting production and the quota price has already reached zero or is approaching it.

Against this analysis, the Commission is of the view that **no change is required in the existing framework**, which has been providing certainty to milk producers since 2008 and is proving its efficiency in securing a smooth phasing-out towards a quota free environment.

Aside from the very concept of soft landing, some concerns are voiced with regard to rural areas in which milk production is playing a central role, in particular in the context of milk quota expiry. In this respect, the inclusion of the milk sector in the "new challenges" under the second pillar of the CAP is providing further support to dairy farmers in preparing for the end of quotas.

The CAP reform proposals contain instruments that could mitigate potential impacts. Furthermore, the Commission has issued an open call for tenders for an analysis by independent experts of future

developments in the milk sector from 2015 onwards, and will report to the European Parliament and the Council by 30 June 2014 on the concrete operation of the Milk Package provisions, assessing, in particular, the effects on milk producers and milk production in disadvantaged regions in connection with the general objective of maintaining production in such regions, and covering potential incentives to encourage farmers to enter into joint production agreements.