Prospects for the EU dairy sector - Review of the implementation of the "dairy package"

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PURPOSE: presentation of the Commission report on the development of the dairy market situation and the operation of the "Milk Package" provisions.

BACKGROUND: the conference "**The EU dairy sector: developing beyond 2015**" held in Brussels on 24 September 2013 explored new challenges that the milk sector will face and discussed whether additional instruments were needed and feasible, taking into account the end of the quota system in 2015.

This report brings additional elements for the discussion and the Commission is keen to continue the debate with Parliament, the Member States and stakeholders on how best to manage the markets once the quotas have disappeared with a view to making further proposals where appropriate.

CONTENT: the main findings of the report, presented by the Commission in accordance with Regulation (EU) No 1308/2013 are as follows:

- Market development to date: the EU milk market is currently in a quite favourable situation. The EU average milk price in January 2014 was 40.03 c/kg which is 17% higher than in January 2013, and the highest average milk price for January ever recorded (statistics since 1977). This upward trend has also been observed in the price of dairy products, although butter prices have been under some pressure since the beginning of 2014. Up to now, the strong global demand has supported firm prices.

However, a correction in prices should not be excluded, given the milk production increase observed across the major exporters. The medium-term prospects for milk and dairy commodities are favourable on both the world and domestic markets. World demand remains dynamic, especially in the emerging economies. Despite the slowdown in economic growth, dairy products are featuring more prominently in people’s diets due to a higher proportion of middleclass households. Production increases resulting from the lifting of quotas can be expected especially in those Member States currently restricted by the quota such as Ireland, Germany, the Netherlands, Denmark, Austria and Poland, as well as in France. Production will depend on the pace of consumption increase in both the EU and the world and on other factors such as environmental constraints.

- “Milk package” provisions: the "Milk Package" was published in March 2012, has been fully in force since 3 October 2012 and applies until 30 June 2020. Implementing and delegated regulations were published in June and September 2012.

The Milk Package provisions have been transposed into national legislation. 12 Member States have provided for **compulsory contracts** between farmers and processors. In two other Member States codes of good practice inspired by the Milk Package have been agreed between farmers and processors organisations.

Almost all Member States have adopted national criteria for the recognition of **Producer Organisations** (POs), though some only recently. In 6 Member States a total of 228 POs were recognised by the end of 2013, a number of which existed before the Milk Package came into force. The creation of (new) POs requires time and of course a strong dynamic coming from farmers themselves. The recent favourable market developments and prospects might not have stimulated farmers to join in POs. In this context potential incentives to encourage farmers to enter into joint production agreements have been provided in

the reformed Rural Development Policy (support for setting op of POs, new measures on cooperation and eligibility of groups of farmers for a series of rural development measures). Furthermore, the possibilities for extension of certain rules of POs and compulsory contributions for non-members might stimulate the creation of large POs.

- Collective negotiations under the Milk Package have been conducted by recognised POs in four Member States. Such negotiations lead to actual deliveries in 2013, varying between 4 to 33% of the total deliveries in the respective Member States. Regulation of supply for PDO/PGI cheese has, so far, been provided by 2 Member States for 3 cheeses. Further initiatives have been announced.

- Inter-branch organisations (IBOs): the possibilities for extension of rules and financial contributions referred to above also apply for interbranch organisations (IBOs) and might be an incentive for their creation. So far, IBOs have been recognised in four Member States. It is too early to see significant effects of the Milk Package on the milk sector in disadvantaged regions. In so far as data are available and based on the variety of criteria used by Member States to identify "disadvantaged regions", the trends of milk production in those regions vary significantly between Member States and between regions within the same Member State. Nevertheless, in several Member States the share of deliveries to cooperative processors in disadvantaged regions is reported to be higher than in other regions. It was not possible to obtain concrete data on activities of POs in disadvantaged regions.

- Under the new CAP (2014-2020), the dairy sector is equipped with a safety net (intervention buying-in for butter and skimmed milk powder, private storage aid for butter , skimmed milk powder and PDO/PGI cheeses), coupled with a regulatory framework for the Commission to react to exceptional circumstances (e.g. extension of the intervention buying-in period, private storage aid for other dairy products, export refunds, authorise a temporary derogation from competition rules as regards agreements and decisions of recognised organisations to take certain measures, exceptional counter-cyclical payments). In addition, milk producers benefit from direct payments and rural development programmes, under which Member States enjoy a considerable leeway to target measures specifically to the milk sector.

- Creation of a milk market observatory: the idea of a European Milk Market Observatory was launched in 2013 and is currently being implemented by the Commission services. The Observatory is a tool within the European Commission responsible for the dissemination of market data and short-term analysis for the dairy market, with the involvement of producers, processors, trade and retail as well as independent experts, and the ambition of addressing the growing need for transparency through more detailed and timely information. Stakeholders contribute with their expertise and market knowledge, adding a qualitative aspect to the quantitative approach of data collection and market analysis. The ultimate objective is to give quantitative and qualitative tools for economic operators to increase their market awareness and help them with their business decisions. The Observatory will also be in a position to send early warnings to the Commission services, when the market situation so requires.

Next steps: the Commission will pursue the debate to address these concerns. In particular, it will explore the need and scope for additional tools for better anticipating crisis situations and for coping better with crisis situations and market volatility. Additionally, **further analysis is needed** to find more efficient ways of supporting the milk sector so as to contribute to improved competitiveness and sustainability of milk supply across the EU after thirty years of milk quotas. The debate on the instruments already in force and the need for additional ones will take place without delay, before the next Commission report on the operation of the Milk Package and on market developments scheduled for 2018.