



EUROPEAN DAIRY ASSOCIATION  
ASSOCIATION LAITIÈRE EUROPÉENNE  
EUROPÄISCHER MILCHINDUSTRIEVERBAND

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## **Future Dairy Policy within the CAP Health Check**

### **EDA Position**

#### **An industry ready for the challenge**

The European Dairy industry is a forward-looking industry, adapting the latest technologies and scientific advances to its products and processes. Traditional product mixes are continually changing, reacting to consumer needs, underpinned by substantial investment in research and development.

This industry can adapt to a quota free and a changing market environment. However, the EU Commission has a key role on enabling this transition through the Health Check. This must be delivered through policy clarity, communicated to all industry stakeholders as soon as possible and within a managed market environment up to and possibly beyond 2015.

#### **The need for Policy Certainty**

EDA recognises the Commission's position that it does not see a future for milk quotas beyond 2015 and within that context welcomes their recognition of the need for a "soft landing" or a managed change to a quota free dairy environment\*. This transition will have significant implications for the European dairy industry and will require careful management to avoid market imbalance, or undermining of producer viability. It is therefore essential that the EU Commission give clear policy direction to the dairy industry as soon as possible through the CAP Health Check.

#### **Quota Abolition**

The merits of the milk quota system are now difficult to justify given past CAP reforms removing market support mechanisms. To prepare for the end of the quota system, appropriate phasing-out measures are necessary. Up to now, as there is no clear policy direction from the Commission on quota reform, European dairy farmers continue to acquire additional milk quota. This prevents on-farm investment and acts as a barrier to entry for young farmers and potential new entrants.

The CAP Health Check is the appropriate mechanism to detail and communicate quota policy to the industry. In so doing, it offers the potential for policy clarity against a background of an amended rural development policy thereby ensuring that quota policy is not incorrectly applied as a policy to address rural decline.

For EDA the basic approach to work towards a quota free environment is through a gradual annual increase of national quotas based on market evaluation. In order for producers and processors to take their decisions with regard to their investments, the amount of increases that has to be based on the most up to date market information must be announced as soon as possible and set out in the published CAP Health Check in 2008.

As an additional but separate instrument, making the super levy more flexible has to be considered, where the level may be determined before each quota year on the basis of the market situation. Similarly where deemed appropriate by market conditions, consideration may be given to an adjustment of the butter fat reference values of quotas.

## **Market Reaction**

It is important to recognise that the reform of supply management mechanisms will have an uncertain effect on markets.

It is difficult to predict producer response to quota abolition and the increasing influence of external factors such as bio-fuels introduces new complexities to traditional production modelling systems.

The current strength in world dairy prices combined with the phasing out of milk quotas could trigger a significant production response leading to market imbalance. Industry investment in increased output will financially restrict its ability to react to any market shock. For this reason the adequate use of market management mechanisms will be essential to avoid potential market distortion for the duration of the quota reform process. Certain market management mechanisms are necessary to insulate and ensure a successful transition to an unsupported and open marketplace. These mechanisms will be required up to and possibly beyond 2015. In this way, the transition will be more successful and create a favourable environment for investment in innovation and new technologies.

## **Managing Change**

Quota review will have significant financial, social and structural implications for the dairy industry and the natural fluctuation of international markets must be recognised. It may be necessary to ensure funds are available to stabilise the evolution to a new and very different dairy industry environment. The communication of clearly defined policy through the Health Check is a key part of this reform process at the earliest possible opportunity.

## **Rural development**

The decline in European dairy farmer numbers is more pronounced in some areas of the community. It is questionable how producers in such areas can retain financial viability as the Community moves closer to a freer and unsupported market system.

A European policy of unsupported markets coupled with its cheap food policy and costly regulatory mechanisms could result in food production declining sharply in certain areas. This is already evident from variation in land and quota prices. An increase in the rate of decline in dairying will hold consequences for the processing sector located in such areas and reduced throughput will increase operating costs and restrict innovation capabilities at processing level.

Therefore, the Commission must acknowledge in the CAP Health Check that not all regions can operate traditional dairying practices in an unsupported market environment. This must be addressed through specific accommodation of the identified needs of individual mountainous regions. Targeted funding of rural development initiatives communicated via the CAP Health Check will be required to ensure that the European family farm is not undermined.

## **Global Context**

The world dairy outlook is for markets to remain firm in the medium to long term, driven by demand strengthened by developing dairy markets growing faster than available supply. Europe's quota system prevents its participation in this growth until 2015 thereby reducing its global market share. The predicted world market price levels for the coming decade present a favourable opportunity to phase out the quota system.

This market buoyancy creates a necessity for the Commission to alleviate current market pressure outside the scope and debate on the forthcoming CAP Health Check. The current shortage of milk supply resulting in extraordinarily high dairy prices, must be addressed through an immediate increase in the milk quota for the 2008 / 2009 quota year. The majority of EDA members favour such an early quota increase in order to alleviate the current pressure from the European dairy market.

***\* It should be noted that the Finnish Dairy Association states that a decision on the future of the quota system should not be taken at this point of time. The Austrian Dairy Industry is against a weakening of the quota system in general.***

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