



“WHAT FUTURE FOR MILK?” – EC CONFERENCE FRIDAY 26TH MARCH 2010

SUMMARY OF EDA’S POSITIONS TO THE HLEG ON MILK

22|03|2010

1. FUTURE OF THE EUROPEAN DAIRY SECTOR

The creation of the HLEG is an opportunity to tackle the challenges that will arise from CAP reform, increased trade liberalisation, quota abolition and climate change policies. This requires a vision of the industry’s future development.

EDA’s vision is for an industry whose development is primarily driven by competitive market forces; that exploits its competitive advantages in adding value to raw milk; that meets domestic EU demand whilst contributing towards meeting the growing global demand for dairy products. At the same time the EU authorities would work in partnership with the industry to deliver a stable regulatory framework that enhances the industry’s competitiveness whilst minimising the extremes of price volatility.

EDA believes that basing policy around this vision will deliver a stronger and more prosperous future for the industry at both farm and processor level.

2. MARKET CONTEXT

2.1 Industry structure: There is great diversity in farm structure, scale of processing, product types, routes to market and industry customers. One size fits all policy interventions in the industry’s commercial relations with suppliers and customers could be extremely damaging.

2.2 Co-op presence: Nearly 60% of the industry’s processing capacity is owned by farmers through producer co-ops. Any policy intervention should not undermine this investment by producers.

2.3 Price formation: In a de-regulated market the trend in producer prices is set by returns from commodity markets such as butter and skimmed milk powder. This is because of the characteristics of raw milk as a product, i.e. its undifferentiated nature which allows it to be switched between end uses. The level of prices paid to producers does not correlate with the concentration of processors or with the extent of fragmentation of milk production.

2.4 Market constraints on processors: The producer prices offered by processors have to be competitive enough to secure milk supply whilst also ensuring they can compete in final product markets. On EU and world markets, dairy ingredients compete with dairy products from third countries; moreover they also face the competition of vegetable products. The dairy processing industry operates on very thin margins, which has consequences on the industry’s ability to invest.

2.5 Volatility: Because demand for milk and milk products is relatively insensitive to price changes, then small variations in the balance between supply and demand will create large variation in price. As on the world market, volatility is now an inherent characteristic of the EU dairy industry.

3. FUTURE POLICY

3.1 Industry Development: Future industry prosperity, for both producers and processors, will rest on improving cost efficiency at all levels of the supply chain, through restructuring and investment, whilst increasing the added value of dairy products to maximise the sector's income. The EU should help facilitate improvements in efficiency and support the industry's competitive advantage by funding research and development.

3.2 Market Management: The EU should seek to minimise the extremes of price volatility. Intervention should be retained as a safety net at a price that does not incentivise over production. It should be available all year round at a fixed price (no tendering). Earmarked accumulated stocks should be used to minimise upward extremes of price. Export refunds should be retained as long as possible and used selectively to address major market imbalances. They should only be phased out as part of a balanced deal in the WTO negotiations.

3.3 Contracts: The EU should not legislate on contracts. It would create a restrictive framework that would stifle industry development. Flexible non-prescriptive guidelines could be of benefit. They could communicate messages on what contracts could address.

3.4 Producer Organisations: The existing producer co-op model has shown itself to be extremely successful. The strength and credibility of co-ops rests on taking full ownership of the raw milk of their members. Any new model for producer organisations should not diverge from this principle. At the same time they should not threaten the integrity of existing co-ops, unfairly distort the market against private dairies or have any exemption from competition law in respect of market share.

3.5 Transparency: Greater price transparency will increase market efficiency to the benefit of consumers. In most cases, it will not be of commercial benefit to the sector.

3.6 Consumer Information: The operation of the Nutrition and Health Claims regulations is restricting the ability of the industry to market its products. Mandatory country of origin labelling as well as mandatory place-of-farming labelling is contrary to the principles of the internal market. It could lead to a re-nationalisation of food production in the EU. Therefore EDA does not support the proposals for such changes in the existing law.

3.7 Marketing Standards: We recommend no changes in the existing marketing standards for milk and dairy products; additional standards should be developed in coherence with international standards.

ABOUT THE EUROPEAN DAIRY ASSOCIATION

The European Dairy Association represents the interests of dairy processors, both co-op and private, in the European Union. The membership of the EDA consists of the national trade associations for dairy processors in each EU Member State.

FOR MORE INFORMATION

DR. JOOP KLEIBEUKER
 EUROPEAN DAIRY ASSOCIATION
 +32 2 549 50 43
 +32 475 70 77 74
jkleibeuker@euomilk.org