

Draft short minutes of the 6 December 2011 meeting of the Advisory Group on Milk

1. ***Adoption*** of the agenda and minutes of the 7 March 2011 meeting of the Advisory Group. Both the agenda and the minutes were adopted. Due to the availability of the person concerned, the presentation on the action plan against the rising threats from antimicrobial resistance was rescheduled to the first point on the agenda.

7. ***EU Action Plan on Antimicrobial Resistance***

COM gave the presentation “Action plan against the rising threats from anti microbial resistance”. After presenting the high relevance of the problem (25 000 human deaths annually, cost EUR 1.5 billion, 4 million patients/year acquiring healthcare-associated infection-, and describing the actions already taken) the COM action plan was presented. Human action, veterinary actions and actions related to the interface between human and veterinary healthcare are included. Such items as appropriate use of antimicrobials, prevention of microbial infections and then spread, development of new antimicrobials, surveillance and monitoring have been translated into proposals for concrete action. For the COM, this is a first step to work on this very serious healthcare problem.

2. ***Situation, Management and perspectives for the dairy market***

COM gave an extensive presentation on the current Milk Market situation. Some main points of the presentation:

- Milk deliveries in the first nine months of 2011 increased 2.1%; increases in eg Germany, France, Ireland and Poland partially compensated by decreases in eg Italy, Finland, Denmark and Estonia.
- The milk price gap between EU15 and EU12 increased in recent months. In October the price is expected to be at its highest.
- Where Butter and SMP production have consistently been above that of 2010, WMP production was lower throughout the year.
- After a decrease of the production in July, Cheese production recovered in August and September.
- For nearly all dairy commodities, prices have been above the previous year most of the time. On the EU market, cheese/whey production is the most profitable alternative; on the world market, it is the SMP + butter production that brings the largest profits.
- In recent months, EU butter prices have been above the US/Oceania prices; for SMP it is just the opposite. For WMP, Oceania is the most competitive supplier. Consequently, SMP exports have increased and butter exports have decreased. EU cheese exports have remained more or less stable, despite a 4% increase of world cheese trade volume.
- Lastly, it was mentioned that in other areas also milk production has increased (US +1.8%; Australia + 2.2%, New Zealand + 11%).

Following this, Eurolait gave its view on market developments:

- The cheese market is stagnating: no increase in production, stable consumption, lower stocks. Because of the tightness in products now, the cheese price is creeping up. For 2012, however, lower prices are expected because of increase in

production (more milk into the cheese-vat), Eurozone consumption may decrease and the political situations in Russia, China and the Middle East may result in pressure on the prices. Current prices are considered to be slightly over-valued; with a decrease to just below 3 €/Kg we shall remain at the medium-to-high price range for cheese.

- For Butter, 2011 has been an exceptional year: the average price of butter over the year has never been that high before; since mid-2010 the price was for a long time above €3500/tonne. The EU price has clearly been disconnected from the world market price. Because of the current milk production increase, a decrease of the butter price is expected. For 2012 a price level of €3400 to €3500 is expected.
- The milk powder market has been quite stable; the whey price has been extreme because of strong demand. The EU is at present not competitive with WMP on the world market. A decreasing import in China has been reported; together with the increasing production in Oceania, this brings concerns on the future market development.
- Lactose has been strong because of the need of lactose for protein standardization.

EDA supports in main lines the vision presented by Eucolait. The balance in the market may also stay for the next year. However, the economic slow-down, and debt crisis and currency developments create uncertainties.

Via Campesina is very concerned with regard to the developments of the dairy sector. The shift of milk production out of the LFAs cannot be accepted; there should be more attention to local markets. The increase of milk production worldwide is a potential time-bomb as there are still very weak points in the market.

The Chairman also mentioned his concerns. Consumption in Eastern Europe is decreasing, due, amongst others because of increasing VAT. In Western Europe spending stays at the same level but because of the price increases, volumes are going down. Since 2011 consumption trends have changed. As a consequence the dairy market is strongly dependent on the world market; when the world market recedes, this will immediately affect the EU market.

3. The Legislative proposals for the future of the CAP and the impact on the dairy sector

The Commission gave an extensive presentation on the CAP towards 2020 and the implications for the dairy sector. After an introduction on the general context of the CAP post-2013, special attention was given to the proposals for the direct payments, to the foreseen changes in the sCMO and to the plans for rural development. It was mentioned that policies that had been decided previously (e.g. quota abolition, dairy package) have not been part of the impact assessment published together with the CAP proposal. With the proposal the Commission wishes to work on an integrated way on the challenge linked to economic, environmental and territorial aspects. On top of that, simplification is a main objective. For the period 2014-2020, in the draft MFF about €435 billion is foreseen for the CAP.

For the direct payments, 5 aspects were mentioned: 1) a basic scheme based on regional flat rate, 2) green payments, 3) a young farmers scheme, 4) voluntary coupled support for areas with natural constraints and 5) a small farmers scheme.

The impact assessment indicates on average over the EU a decrease of the direct payments for dairy farmers of approximately 7.5%. For the Commission, the challenges that need to be tackled in relation to the single CMO are the increased exposure to external factors, the food supply chain issues, the uncertainty in relation to market prospects and the articulated and complex system of market instruments. In the opinion of the Commission the perspectives for the dairy sector are quite positive; because of this, the changes in the CMO should support the continued market orientation and provide an effective safety net. Looking at the safety net, updating and modernization of the instruments and the installation of a crisis reserve are the main aspects of the proposal. Together with the work towards competitiveness and the availability of an adequate safety net, it is proposed to work on producer cooperation and simplification.

The specific measures foreseen for the dairy sector are: 1) abolish SMP support schemes, 2) reintroduce optional scheme for PSA for SMP, 3) make also the PSA scheme for butter optional, 4) make the opening for tendering in intervention for Butter and SMP automatic and 5) promote regional/national strategies for the school milk scheme. Finally, Rural Development proposals relevant for the dairy sector are: 1) support integration in the milk supply chain, 2) fostering innovation/knowledge transfer in rural areas, 3) support competitiveness of viable farms and the introduction of a risk management tool-kit.

For Copia Cogeca many questions have to be answered on these Commission proposals, especially questions on how to come to the objectives. For example, the principle introduced with greening is OK, but the proposals have to be made less rigid. The consequences of the proposals for the introduction of a flat rate for the direct payments for dairy farmers need more study. On the sCMO, the level of intervention needs particular consideration: to be a safety net, production costs must be taken into account.

For Via Campesina the intervention system should not be just a safety net, operating only in the case of disaster. At an early stage there should be a mechanism to adapt the supply to the demand; as with Copia Cogeca, Via Campesina also asks for a link between the intervention level and production costs. Also, working to fair distribution of the profits along the production/marketing chain is essential.

For Copia Cogeca also the future of milk production in LFAs is a point that needs further consideration. In many areas milk production is the last option, but can this milk production be competitive in the future? Some Copia Cogeca members also questioned again the abolishment of milk quota; it may be necessary to do again an impact assessment on the effects of this measure.

Eucolait asked the Commission why the PSA for butter will become optional.

The Commission is well aware that for farmers who up to now receive the direct payment based on historical values will lose upon the shift to the flat rate but the flat rate concept provides the farmer with a minimum income, while keeping the notion of payment for public goods in place. The upcoming report on the progress with the implementation of the Health Check will also consider the results relevant for the soft landing upon quota abolition. The Commission mentioned the conditions for crisis reserves: 1) there should be a crisis, 2) EP/Council have to be asked to allow the use of the crisis reserve and 3) the amount for crisis reserve is NOT cumulative: it is for each successive year a maximum of €500 million, independent of the use in the previous year.

On dairy farming in LFAs it is proposed to give countries the option to spend maximum 10% of their direct payment budget for coupled payments to support production. The Butter PSA will no longer be mandatory: storage is a regular process in the cheese market; PSA support will begin only when there are main risks in the market.

4 The Milk Package, State of Play

The Commission presented the progress with the Milk Package. Trialogue discussions are close to an agreement. In this way a second reading in the EU parliament can be avoided. In essence the final agreement may be quite close to the original proposal of the Commission with some additions:

Member States can decide to make contracts compulsory between farmers and processors; they can also oblige milk processors to offer a draft contract to their farmers. In these proposals a minimum duration of 6 months can be imposed, but a longer duration is also possible. The milk producers (or producer organisation) can refuse the proposal and ask for negotiations.

For Co-op members, there will be no obligation for contracts as long as the statutes/internal rules have similar effects. Co-op members with a delivery obligation to the coop can not set up a PO for negotiating with the coop the price of raw milk for which they have already a delivery obligation.

The Commission has already introduced the joint meetings of the Advisory Group and the Committee for the sCMO to increase transparency on market developments.

Under certain strict conditions, Member States can at the request of producer organisations, interbranch organisations or PDOs/PGIs groups regulate for a limited time period the supply of PDO/PGI-cheeses.

It is foreseen that in 2014 and 2018 a progress report on the implementation of the Milk Package will be published. The application of the milk package is limited till June 2020.

For Copa Cogeca the Milk Package is an important piece of legislation, however it will not solve all the challenges. Maybe CAP towards 2020 can contribute there.

EDA asked the Commission how they think to ensure the competitive position of private dairies compared with Co-ops where POs cannot have a function.

The Commission explained the expected timing of the process to come. The publication of the Milk package can be expected around 1 April; it will come into force three days after publication. The recognition of POs and IBOs will apply immediately, the other

elements enter into force with 6 months delay. Member States can already start working on POs and contracts. The proposal would complement the existing mechanism as Rural Development, coupled dairy payments for disfavoured areas and the continued application of the market instruments. An essential point in the regulation is Article 126/paragraph 5: the safeguard clause for national competition authorities to decide to reopen or prohibit a specific negotiation by a POs. When companies want to initiate such a process, they should demonstrate that competition is explicitly excluded or that a SME processor could be seriously damaged. For the latter it could be easier to initiate an evaluation by the competition authorities.

4. The regulation on the provision of food information to consumers – state of play

The Commission presented the state of play in regard to the Food Information for Consumers regulation via a PowerPoint presentation. It has been a long process towards the publication of this regulation in November 2011. The scope of the regulation is “all foods delivered to the final consumer” and “all means of making information available”. Key points in the regulation cover simplification, label legibility, origin labelling and nutrition information. The Commission has to carry out studies on two aspects relevant for dairy: the impact of origin labelling for milk and milk products and developments with the intake of Trans Fatty Acids in the EU. The planning for these studies is ongoing. The report on origin labelling has to be presented before 13 December 2014. The concept of nano-technology based products has been included in the regulation only at a late stage. Further discussions on what has to be considered as relevant nano particles are ongoing. Where any defrosting has to be mentioned on the label, this does not hold for defrosted butter. Finally, on allergens, 14 allergens have to be labeled; Member States can decide on how to apply this obligation for non-prepared foods.

5. Information on bilateral negotiations

The Commission presented the progress in regard to the bilateral negotiations in the framework of possible Free Trade Agreement.

On Canada: 9th round of negotiations/dairy sensitive not negotiated up to now; EU is holding back beef, pork and sweetcorn ; up to now no indications for any move; Origin Labelling and GIs are also on the agenda; Canada is prepared to protect dairy and meat GIs, and is not willing to accept new GIs.

On India: Intensive discussions/difficult.! EU is asking market access for dairy products as a priority, but for the time being, India is very conservative in its market access offers. The EU will maintain its requests particularly for milk powder, cheeses, also buttermilk, whey and value-added dairy preparations..

On Asean: As negotiations with Asean have been unsuccessful until now, negotiations started with individual Asean members. With Singapore, bilateral agreement on agriculture tariff lines is possible; with Malaysia more problems. Here also GIs on the agenda.

On Mercosur: Until now no real negotiations on market access. EU is looking for export of dairy products. The next round will take place in March 2012; main point will be to decide on a date to exchange offers.

8 AOB: no points presented

9. Closing: The Chairman thanked all participants for their contribution and closed the meeting.

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