

## **Advisory group milk of 2<sup>nd</sup> July 2013 – draft minutes**

### **1. Adoption of the Agenda and approval of the minutes of the previous meeting**

The minutes of the meeting of 6 March were approved. The agenda was adopted and two additional topics were added to be discussed under AOB: the September Conference on the post-quota dairy market and the future organisation of advisory groups.

### **2. Market situation**

#### **2.1. Commission presentation**

Milk production (reflecting 2013 up to April) so far is 2,6% lower than in the same period last year. Milk prices have been stable over the last few months, the latest EU average price being 34,3 cents.

EU average prices for SMP (€ 312/100kg), butter (€ 402/100kg) and WMP (€ 360/100 kg) and, to a lesser extent, whey powder (€ 103/100kg) have significantly increased since the last Advisory Group in March. For butter this price sits just below the historically high price recorded during the 2007 price spike. Prices for both SMP and butter are around 50% above the prices recorded in June 2012.

The evolution for cheddar and Edam has not been that spectacular.

#### **Exports:**

In the course of the last few months, the US has managed to be the most competitively priced exporter of dairy products. For SMP and WMP the EU remains more competitive than Oceania.

Butter: New Zealand is directing fat more into butteroil and WMP. There is increased demand for butteroil in Mexico and Russia however demand for butteroil is falling in China.

EU SMP exports are 35% below last year and exports are down 16% for WMP. Overall demand for WMP in China has however increased 55%.

EU cheese exports are up 11% during the first four months of 2013.

Russia butter imports have nearly doubled in comparison to last year (up 85%). Iran butter imports are also up, by 24%.

SMP import volumes into China and other 3<sup>rd</sup> countries are down, probably due to lack of product

US is currently the only region keeping the pace in milk production (production is down slightly (0.7%) on 2012 levels).

Australian year-to-date production is down 2.3% on last year. New Zealand production and Argentinean production are down 11% and 12% respectively on 2012.

## **2.2.Margins report**

The margin update is based on data from Q4 of 2012. Information from Q1 2013 should be available soon. Although margins were falling in the middle of 2012, margins moved upwards in Q4 2012. The margins are weighted on an index (100) which is based on 2007 margins.

Eucolait noted that the margin report presented by the Commission was useful but that more recent data was needed as currently the figures show a six-month lag. Moreover, 2007 was an exceptional year so it can be questioned whether data from that year offers a good base for comparison.

## **2.3.Exchange of views**

- **View of trade - Eucolait**

### **Cheese**

Exports: in addition to there being an increase in EU exports, US and New Zealand exports are both up 7% and Australian exports have increased 9%. Cheese exports have grown consistently since 2008. Between 2008 and 2012, volumes of cheese exported from the EU increased by 38%. Russia remains the main global importer of cheese but cheese import volumes into China have increased 33%.

Consumption in Europe: in Southern Europe, consumption is down. Only weak growth exists in Northern Europe, i.e. UK sales increased by 1.5% between April 2012 and April 2013.

Production is down due to lack of milk as a result of adverse weather conditions. Not all regions in Europe have been affected to the same extent: during Q1 2013, cheese production was down 5% in Italy but was down 11% in the UK. Prices are firm because of tight milk supplies. Price spikes have been more acute in countries where the shortfall of milk has been the greatest. Cheese prices are set to remain firm for the remainder of 2013. Butter prices are also increasing and fat may be transferred to butter production.

### **Butter**

Due to cheese consumption holding firm in certain member states, less fat is currently being transferred into the production of butter or AMF. This has resulted in high butter prices, (€4250/tonne for 82% fat butter) and historically low volumes of butter entering into private storage arrangements.

Lower world market prices are a result of the American presence on the market (\$3500 or € 2700 per tonne). This however has not affected the internal market of the EU. Unlike powder, butter does not have to be exported in large quantities in order for a balance to be achieved.

It is unlikely that butter prices will fall in the near future, given low stocks and seasonal falls in milk deliveries.

### **Powder**

With less milk available and more of this milk being channeled into cheese production, availability of milk for production of exportable commodity powders will be constrained. As a result, from January to March 2013, EU production of SMP is down over 10% (10.3%) and WMP production is down 9.7%.

Even with a modest increase in milk production expected to be recorded for the second half of 2013, powder production will remain down year on year. A tight situation for powder supplies is unlikely to change for the rest of 2013. Prices will stay high for commodities (butter and SMP) for the rest of the year. Modest adjusts of a few cents per kilogramme have been recorded in Dutch price quotations over the course of recent weeks. USDA international prices were adjusted downwards for June.

No EU producer was successful in the recent ONIL tender, given the lower prices quoted by other producers (SMP from US and WMP from South America).

Futures indicate price declines for Q3 and beyond, but the extent of this decline remains to be determined. Volumes committed to GDT have increased again for the next few auctions. Higher prices have choked off demand in emerging markets. Buyers are holding off in anticipation of increased production in the southern hemisphere, but a price crash is unlikely as increased production is expected to be modest.

- **View of the Industry - EDA**

EDA said that markets are tight due to lower milk production. The consumption in the EU is not dynamic. Producer prices are going up as a result of higher commodity prices and apparently feed costs are moving downwards so this could lead to an increase in production in the second half of 2013.

- **Producers view**

According to Copa Cogeca the situation is now more positive but the market is still under severe pressure. Producer margins have severely decreased over last 15 months. Farmers look forward to price increases coming back to producers in the context of increased production costs. There are concerns about the availability of fodder for the coming winter and the accompanying pressure on the price of feed.

Producer representatives asked whether the current situation was similar to the 2007 price spike, which was followed by a severe crisis and whether there was a risk of substitution by vegetable fats

because of the high prices for dairy fats. The problem with the quality of feed as a result of bad weather which Italy has experienced was also highlighted. This has caused problems with aflatoxin levels found in milk and had as a consequence the destruction of an important quantity of milk.

CEJA underlined the uncertainty producers are facing because of price volatility and said that the market situation and milk prices are not uniform throughout Europe.

#### **2.4.Update on Expert Group on agricultural commodity derivatives and spot markets**

This expert **group** was set up in the context of the proposals by Commissioner Barnier to reform financial markets' regulation. The next meeting of the Expert Group will take place on 3rd October. The purpose of the group is to achieve a better understanding of how the agricultural commodity derivatives and spot markets function and to identify potential concerns.. This will serve in the elaboration of implementing rules to MiFID II (Markets in Financial Instruments Directive).. In this context, it was noted that political agreement has been reached between the EP and the Council on the MAR (Market Abuse Regulation) whereas for MiFID the Council has reached an agreement on their general approach, the next step being the engagement via dialogues with the EP. The legislation concerning MiFID and market abuse (MAR) are expected to enter into force in 2014 and their implementing acts by 2016.

Eucolait pointed out that agricultural commodities are different and behave differently from other commodities. A one size-fits-all horizontal approach is therefore undesirable. Even among different agricultural products groups there are great differences that need to be taken into account. In the dairy sector, regulation is not the biggest concern as financial entities do not actively participate in the derivatives market. More liquidity would be needed as a first step. Within the expert group, there has so far been no consensus as to whether speculation has increased volatility. It would appear however, that supply-demand fundamentals remain the single most important drivers of price discovery.

### **3. CAP towards 2020 (with focus on the dairy sector)**

Presentation of the state of play by the Commission:

Further to the recent political agreement, formal adoption of the four regulations should take place in September. Currently especially the Council secretariat is working on putting the final text in place.

As regards direct payments, the main elements of the Commission proposal are still there. 30% of payments have to be devoted to greening (i.e. permanent grassland, crop diversification, EFAs). There is also a list of equivalent measures and for organic farms there are no supplementary requirements. Coupled payments are still possible in dairy sector, up to 8 or 13%% of national ceiling and the Commission can even approve a higher percentage upon justified request

On the CMO, there is no codified text yet as the milk file was closed in the last minute negotiations. The main outcomes are:

- The safety net is reinforced by automatic tendering, the limit for fixed price buying of butter is increased to 50 000 t and the intervention period is extended until the end of September for both butter and SMP.
- PSA is extended to SMP and certain PDO/PGI cheeses after the ripening period. PSA for butter becomes optional and is thus PSA is optional for all products.
- The aid schemes for processing skimmed milk into casein and the use of SMP for feed are abolished.
- Marketing standards for spreadable fats: the term low fat has been dropped due to alignment with the claims regulation. The term 'reduced fat' is maintained and the conditions of use for 'reduced fat' and 'light' become the same.
- Extension of rules agreed by producer organizations and interbranch organizations to non-members is also possible in the dairy sector.
- The quota provisions continue to apply until 2015. There is no alternative supply management mechanism.
- As regards delegated and implementing acts, there is no concrete planning yet. Existing marketing standards continue to apply until the adoption of the required delegated acts.

Discussion:

Eucolait welcomed the adoption of the reform package and said it proved that the ordinary legislative procedure with its trilogues also worked in agriculture. The outcome is satisfactory from the perspective of trade, in particular the deletion of supply management, but the abolishment of mandatory PSA for butter is regrettable.

EDA made reference to its press release on this topic.

Copa-Cogeca welcomed the fact that a deal on the CAP was reached and underlined that the details, including on greening, will need to be looked at carefully. With the reduction in CAP budget, including on direct payments plus the reduction in margins, milk producers will need better market returns. In response to a question from Copa Cogeca on when the safety net is triggered, the Commission answered that price levels and the market situation in general are taken into account. It is important to be able to make decision based on common sense rather than a simple formula.

## **4. External Trade**

### **4.1.Update on trade negotiations**

- **Japan:** negotiations started about 2 months ago and the 2nd round took place in the last week of June in Tokyo. Japan is very defensive on agricultural products, so the Commission expects very difficult negotiations. The Commission is also looking for more detailed information on the priorities from stakeholders.

- **Canada:** some final parameters need to be drawn out, including agriculture. There is no indication as to when the next round might take place as discussions have moved from a technical to a political level.

**TTIP:** the first round takes place next week (week beginning 8th July), and will be dedicated to initial discussions. Two more rounds are scheduled for this year which will go more into detail as regards market access and regulatory issues.

EDA stated that the privately funded Cooperatives Working Together (CWT) export subsidy programme should also be addressed during the negotiations as far as exports into the EU are concerned as it causes market disruption. Reference was also made to the implementation of the Food Safety Modernization Act.

Eucolait welcomed the emphasis put on regulatory dialogue in the negotiations and said that the objective should be to reach mutual recognition of each other's food safety systems, including the Grade A Pasteurised Milk Ordinance which hinders the export of fresh dairy products and dairy ingredients to the US.

CEJA noted that the Advisory Group should be presented with more information (e.g. impact analysis) than just dates to be able to form an opinion about the negotiations.

Information on the negotiations with India, Vietnam and Thailand has been circulated in writing and uploaded on CIRCABC.

#### **4.2. Technical barriers to trade**

The Commission explained the procedure for commenting on TBT notifications from other WTO members. All WTO members need to notify their proposed technical regulations and conformity assessment procedures that may have a significant impact on international trade. Other members shall be allowed to have at least 60 days to submit comments. In the EU, the procedure is managed by the EU-TBT enquiry point which is part of DG ENTR. Other Commission services are however also consulted, e.g. DG AGRI when it comes to rules concerning agricultural products. Stakeholders can send their individual comments to the TBT enquiry point. When doing so, they are encouraged to put DG AGRI services in copy.

#### **4.3. EU position in view of Norway's tariff rate increases for cheese**

Increased ad valorem duties were announced in autumn 2012 for six tariff lines, two of which were cheese lines (ad valorem duty of 277%). Not all cheeses are covered in the tariff lines affected by the switch to ad valorem duties. There is some evidence that the cheese quota is now being used to import cheeses hit by the high tariff while more of the unaffected cheeses (e.g. Grana Padano, Parmigiano Reggiano), are being imported out of quota.

The Commission is of course opposed to this, nevertheless the changes to the tariffs entered into force in January 2013. This increase of duties is a protectionist measure which goes against the spirit

of both the WTO and EFTA agreements; unfortunately there is not much that the Commission can do at this point in time.

EDA noted that some changes in trade patterns have been observed and thanked the Commission for being active on this topic.

## **5. EU policies relevant for dairy**

### **5.1. Update on the implementation of the milk package**

There have been no major developments over the past few months. There are still eleven Member States that have introduced or plan to introduce compulsory contracts.

Recognitions of producer organizations have been reported in five Member States, namely Belgium (1), Germany (125), Spain (4) France (9) and Italy (32). Some of the recognized producer organisations already existed prior to the milk package. So far only one association of producer organisations has been recognized (in Germany).

A total of six interbranch organisations have so far been recognized, four in France and one each in Spain and Portugal. Denmark and Poland are not applying these measures and no interest has been expressed from the UK. For the purposes of an Interbranch Organisation requiring coverage of a 'significant share' or producers, this has been further defined and clarified by a number of Member State authorities.

As regards PDO/PGI cheese supply regulation, France has this up and running for Comté and is interested in introducing the system for other cheeses. Italy and Greece have also expressed interest.

Comments:

CEJA criticized the milk package and pointed out that regional competition bodies have attested the lack of bargaining power of producers in practice. In Spain, it is commonplace that contracts are signed without the price being indicated.

### **5.2. Official controls**

Commission presentation:

The proposal on official controls was adopted by the Commission on 6 May 2013 as part of the "smarter rules for safer food" package. It will now go through the ordinary legislative procedure, with adoption and publication expected in mid 2015 and application in mid 2016.

The purpose of the reform is to simplify and clarify the current legal framework laid down in regulation 882/2004 and numerous other legal acts. The main changes include a broader scope, cost-based mandatory fees, more transparency, a new information management system and integrated controls at borders including the establishment of a common health entry document.

EDA pointed out that a risk based approach should be followed. Concerning inspection fees EDA said that the principle of full recovery was unacceptable. Food and feed safety is a public good and should consequently be borne at least partly by the tax payer.

### **5.3.Origin labelling**

- **Voluntary Origin Labelling**

Background: According to Article 26(3) of the Food information for Consumers regulation, if there is a voluntary indication of the origin of the product by the producer, then the origin of the main ingredient also needs to be indicated in the event that the main ingredient has a different place of provenance/country of origin. Implementing measures need to be created by the end of 2013

A study conducted by an external contractor was submitted to the Commission in April but has not yet been published. Concerning the level of precision of the origin indication the consultant has identified several options. The origin of the ingredient could be indicated at the same level of precision (as that of the product), at a lower level of precision or at a higher level of precision.

- The first option is challenging, particularly in instances where the source of the ingredient varies, (due to supply constraints). Extra costs would be involved with this option.

- A higher level of precision is considered 'impossible'. There would be very high surplus costs associated with this option.

- A lower level of precision (i.e. Product of Member State X, ingredient of the EU), is seen by industry as very achievable and would only require minimal surplus cost to implement. However, it would appear that there is little appetite amongst consumers for this, as labelling 'at EU level' does not mean enough.

In response to a question by Eucolait on what constitutes a primary ingredient (e.g. cream or milk in the case of butter and place of processing of the milk or place of milking), the Commission replied that this must be determined on a case by case basis. A primary ingredient is defined as an ingredient representing more than 50% of the final product or usually identified with the name of the food. For the latter option, this would have to be outlined in greater detail at implementing level. The Commission would not have an answer for all specific cases in the dairy sector so this would have to be decided case by case.

In terms of timing, the Commission is now working on an impact assessment which should be finalised in September. A draft of the implementing act should be discussed with Member States in October and/or November. Adoption of the regulation is expected to take place in December.

- **Mandatory Origin Labelling:**

Reports on milk and milk used as an ingredient will be carried out by an external consultant. The need for, feasibility of and impact of mandatory origin labelling on the internal market and



international trade will be assessed; a call for tender has not yet been launched, this will however be launched in the coming days

While the dairy sector is specifically targeted by that study, it is unclear to which extent it will be included in other studies, e.g. on labelling of the origin of a single ingredient product,. The Commission stressed that one of the key elements of the study is to assess the need for the consumer to be informed .

Replying to a question by EDA, the Commission said that if mandatory origin labelling is proposed for milk, coherent the logic would call have the same proposal for similar requirements for competing products such as soy drinks. This will be part of an overall assessment once the findings of the above mentioned studies are available.

#### **5.4.School milk**

The public consultation on the future of the school milk scheme ran from January to April. 347 contributions were received. It was noted that most responses were received from Poland (44%), followed by Germany (19%), Belgium (7%) and France (5%). 41% of these responses came from schools. 85% of respondents agreed with the Commission analysis of problems, with those not in agreeing considering the analysis to be either too broad or too narrow in its scope.

As regards deciding on the best way forward for the future of the scheme, the preferred option (of 36%) of respondents was 'adjustment', whereby there would be administrative adjustments and synergy between the School Fruit and Vegetable and School Milk schemes. 33% of respondents were in favour of establishing a completely new framework, while 31% of respondents were for maintaining the status quo.

Accompanying measures (e.g. educational programmes in schools) were considered by 54% of respondents to be a 'crucial' element of the scheme, with 41% considering such schemes to be 'important' and just 5% believing that they were 'not important'.

In order for the schemes to run successfully, certain determinants were highlighted, namely strong EU funding, participation of multiple actors, (parents, teachers, farmers, suppliers etc.), the use of cross sector initiatives and schemes which would not 'overburden' schools and which are adapted to the target group.

## **6. AOB**

- **Conference 24 September**

The date has been confirmed, and the conference will have a different format compared to the advisory group, with about 400 participants.

The day will begin with the presentation of the study on the future of the dairy sector; this would be followed by the presentation of other studies and an open discussion. In the afternoon, there would be two workshops.

Why a conference? The Commission wants to be sure to have taken into account all elements with regard to market balance, competitiveness and sustainable milk production including territorial dimension after quota abolition in 2015.

Producer representatives welcomed the fact that the study will be made available to the public to give the opportunity to stakeholders to better prepare a reaction.

- **Format of advisory groups**

According to the Commission the status quo is no longer an option. The Commission is looking for new ideas going forward; the number of NGO seats should be increased. Currently the system does not allow representatives of new NGOs to join the advisory group as experts (and therefore they cannot be reimbursed for their participation). Concern was expressed that if Advisory Group Milk was to be scrapped and dairy was to be moved to an 'Advisory Group Animal Products', then valuable expertise in the field would be lost.

The Commission requests stakeholder feedback on the future of Advisory Groups up to 20 July.

Disclaimer

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