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Eucolait position on market transparency in the dairy supply chain

Eucolait, the European Association of Dairy Trade, would like to make the following comments regarding market transparency in the agri-food supply chain. All our comments obviously relate exclusively to the dairy sector.

Eucolait believes in a healthy and competitive European dairy sector with a leading position in global trade and therefore fully supports the market-orientation of the Common Agricultural Policy (CAP). This market orientation needs to be accompanied by comprehensive, reliable and timely market information to provide operators in the dairy supply chain with the right signals. Market transparency is also essential for building trust between actors in the supply chain.

Current level of market transparency

While Eucolait is generally in favour of increased transparency in the form of improved data from public sources, we believe that the EU dairy market is already very transparent. Since the launch of the Milk Market Observatory (MMO) in April 2014, market transparency of the EU dairy sector has improved considerably. Monthly data on production, trade, stocks and milk prices as well as weekly price information on dairy commodities can be found on the MMO. Much of the market data was already publicly available before the MMO, but it was scattered and not always presented in an easy to use manner. Most relevant data is now gathered in a 'one stop shop' for current and historical EU dairy market information as well as for possible future trends. We believe the MMO has also helped the Commission in its role of market monitoring and it has certainly improved the communication about market developments. Overall, despite certain shortcomings, it is fair to say that the MMO has established itself as a crucial information platform for all dairy stakeholders. The information on the MMO is completed by publicly available data published by EU Member States agricultural and statistical agencies, certain industry funded bodies, consultants and the authorities and organisations in key 3rd countries such as the United States, New Zealand or Australia.

Possibilities for improvement

There is of course always room for improvement. Any efforts to increase market transparency in Europe should firstly focus on further improving the quality and timeliness of the information on the MMO. This concerns mainly production and trade figures which are published with a certain time lag due to the need to collect information from 28 countries. There are also shortcomings when it comes to the accuracy of the data reported by some Member States. Any measures to ensure that all Member States communicate accurate figures within agreed deadlines would therefore be most welcome. Moreover, the MMO does not contain any information on the consumption volumes of various dairy products or retail prices (or food service for that matter), presumably because such data is not reported by Member States and cannot or only scarcely be found in the public domain.

Link between the level of market transparency and supply chain dynamics

It is important to stress that the information available on the MMO and in other public sources is clearly sufficient for understanding present supply, demand and price dynamics. There is by far enough information available for operators to take the right decision in a given market situation (e.g. to produce less when it is evident prices are collapsing) but each operator acts according to his own interests and in line with the financial situation of his company or holding. There is indeed a challenge in the dairy sector to adjust supply to demand, which in turn leads to price volatility, but this phenomenon is not caused by any lack of market transparency or by information asymmetry. There is of course a lot of data and market analysis available for purchase but it is normal that the market intelligence needs of a company buying or selling huge volumes of multiple dairy ingredients are not the same as those of for instance a milk producer or a small artisanal cheese maker. In addition, most of the dairy data used by companies, large or small, is public because there is no better or faster private alternative. This is true for e.g. milk collections, the production of dairy products, prices and EU exports. Therefore, it can certainly not be said that the current level of market transparency would in any way hamper the efficient functioning of the dairy supply chain.

It is also worth highlighting that in the dairy sector, the products defer in pricing depending on origin, producing company, specification etc. It would therefore be unrealistic to expect the same transparency as with soy, grain or other commodities that are traded in bigger volumes on a more homogeneous market.

Refrain from simplistic conclusions

It is crucial to keep in mind that the dairy supply chain is much more complex than the commonly presented producer-processor-retail image would suggest. Milk is processed into a variety of dairy products sold through multiple channels that all influence the milk price. Taking the example of cheese, it is sold in shops, consumed in restaurants, used as an ingredient in numerous processed foods as well as exported. A simple comparison of the price of a cheese or a litre of milk in the supermarket with the current raw milk price is therefore of limited value. As for prices of commodity dairy products, they are not simply the result of bargaining power but are driven by supply and demand fundamentals, many of which are largely outside the control of businesses (e.g. weather, trade barriers or consumption trends).

No need for additional reporting requirements

More transparency is certainly welcome as long as it does not confuse more than it contributes clarity. Eucolait would not support any new reporting requirements for instance on processing costs or margins that would impose additional costs on operators without bringing much valued added. In addition, market transparency should not be promoted to the detriment of confidentiality or the proper application of competition law.

To conclude, transparency in the dairy market is very important, if not essential. However, it cannot be considered as sufficient on its own for guaranteeing the smooth functioning of markets. We believe that the level of transparency in the EU dairy market is quite adequate, even if further improvements in terms of data quality and timeliness would be desirable.