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## Eucolait position on market transparency in the dairy supply chain

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.

In the context of the two public consultations run this autumn and the broader initiative to improve the functioning of the agri-food supply chain, following the recommendations of the Agricultural Market Task Force, we would like to contribute to the discussion with our observations regarding market transparency in the dairy sector.

### 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 as well as authorities and organisations in key 3<sup>rd</sup> 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 considerable time lag in comparison with key third countries. Milk collection figures are published more than 1,5 months after the reporting period (e.g. on 19 October for August), which is about one month later than in the US and New Zealand, the other 2 main dairy exporters. Similarly, EU trade figures are



published some 2-3 weeks later than those of other major dairy players. We fully understand the challenges linked to collecting information from 28 countries, but swifter availability of data seems crucial to us, in order to be more aligned with in particular the US and New Zealand. This is all the more important in an increasingly global market place. 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.

The MMO does not contain any information on the consumption volumes of various dairy products, nor on retail or food service price developments. Such information cannot or only scarcely be found in the public domain. It would be helpful to include at least some general trends on the MMO website so as to complete the picture.

Finally, we would recommend including information from the main dairy futures markets, as these give an indication of possible future price trends, based on current expectations of market participants.

### **Link between the level of market transparency and supply chain dynamics**

It is important to stress that the information basis available for decision-making in the dairy sector is very strong. The market information 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 (in particular on consumption) but it cannot be expected that everybody should have access to complete and updated information for free. It is also evident 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 differ 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.

### Complexity of the dairy supply chain

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 which all influence the milk price.

First and foremost, milk is derived from animals and while there are production cycles like in many other agricultural sectors, the “harvesting period” and the “processing period” in dairy is essentially a daily one. In addition, the storability (i.e. shelf life) of products has an extremely wide range, from some 48 hours in the case of raw milk to several years for milk powders, matured cheeses or frozen butter. Milk production is exposed to and depends on a variety of economic and political factors as well as structural capacity and weather. The “milk tree”, i.e. the multitude of products and co-products which can be derived from raw milk, has many levels and components. The decisions made by individual processing companies regarding the use of the milk to ensure maximum valorisation (drinking milk, yogurt, cheese and whey, cream, butter and SMP, WMP etc.) depend on price and demand developments in all these segments as well on capacity. Public policies such as intervention buying for SMP also have an influence.

Further downstream, all these different dairy products are sold to traders, wholesale, retail or food service operators, used as ingredients by the food (or feed) industry or sold to customers in third countries. 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. Given the complexity of the supply chain dynamics and the huge number of parameters at play, a simple comparison of a litre of milk in the supermarket with the current raw milk price is 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).

### Conclusion

More transparency is certainly welcome as long as it does not confuse more than it contributes to 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.

The answer to the overarching question of whether the current level of market transparency affects the proper functioning of the dairy supply chain, is clearly “no”. To improve the functioning of the food (dairy) supply chain, which is the ultimate goal of this initiative, the focus should not be put on assessing the adequacy of dairy market information but on assessing how to improve the supply side reactions to that available market information.