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Eucolait views on the future CAP post 2020

In the context of the public consultation on the next CAP reform, Eucolait wishes to express its views on a number of key elements which should be central to CAP discussions going forward. In general terms, the CAP should ensure the competitiveness and sustainability of EU agriculture. Our comments will focus mainly on the market related part of the CAP which remains the most relevant one from the perspective of dairy trade. Next to maintaining the market orientation of our agricultural policy with some adjustments, we believe that strong policy coherence with linked areas such as trade and the internal market is of crucial importance.

Market orientation of the CAP

The EU should continue on the track of ensuring that the CAP remains as market orientated as possible. The gradual shift from market support in the form of high intervention prices and export refunds to (mainly decoupled) producer support has helped the European dairy sector to grow and to become competitive on the world market. The last milestone of this long process was the abolition of the milk quotas in 2015, which constrained EU milk production for 31 years.

In a context of a global dairy consumption which grows by some 2% per year, the EU is today best placed to serve this additional demand. The present market orientation needs to be continued to allow the EU dairy sector to thrive, to capitalise on its investments and to consolidate and further improve its position on the global market, where it is already the leader for several product groups, such as cheese, SMP, or infant formula.

Market Management tools

Market orientation need not mean a total absence of government intervention. The current safety net consisting of public intervention and private storage aid has proven its worth and should be carried over into the new CAP. Public intervention should be open throughout the year to avoid unnecessary uncertainty at times where prices hit the floor during the autumn and winter months. We have seen that in practice if required the intervention period is always extended or brought forward so this might as well be fixed in the basic act.

An increase of the intervention prices would however give the wrong signal to operators and any production for intervention should be avoided. In late 2015 and for a good part of 2016, intervention already constituted the most attractive outlet for 350 000 tonnes of SMP which will have to be released on the market at some point. We would not want to encourage the creation of an even more serious 'protein problem' in the future. Where supply exceeds demand, the only remedy is lower milk production.

This said, we believe the adjustment of supply to demand has to be achieved by the players along the supply chain on their own and various dairy companies have put in place schemes in this regard. Mandatory public supply management has no place in a market orientated CAP and should therefore not be pursued in any form. In this context, it should be noted that the quota system, while blocking production growth, did not prevent structural change in the dairy sector, nor did it protect against the increased price volatility after the intervention prices had been lowered, not to speak about the extremely burdensome administration and the billions of euros of superlevy payments. Eurolait also questions the usefulness and cost-effectiveness of voluntary initiatives such as the recent milk production reduction scheme.

Finally, it should be clarified that the era of export refunds is definitively over by removing this instrument from the CMO. This will prevent speculation about and calls for their reintroduction and limit misunderstandings about this topic by the general public.

Risk management tools

The increased market orientation has brought opportunities for the dairy sector but also more uncertainty in the form of increased price volatility. Political developments and uncertainties such as

Brexit will continue to influence dairy market developments and possibly intensify price volatility, but such risks need to be addressed mainly with industry-driven private tools.

While it is impossible for public authorities to shield actors in the dairy supply chain from the effects of volatility, there are a number of tools the development and use of which can be supported and encouraged by the EU. These include fixed milk price schemes (developed by dairy processors in co-operation with supplying producers), flexible loans, various insurance products, mutual funds, futures and other forms of derivatives. In particular, the development of dairy futures would assist market participants in securing their margins. Futures also create an environment in which there is a greater degree of price disclosure, thereby enabling better planning by all actors.

The primary action which can be taken by the Commission to support the development of futures is providing the most accurate information possible on the website of the Milk Market Observatory (MMO) in the timeliest manner possible. The publication of price information from the main exchanges would equally be helpful (similar to the publication of the results of the Global Dairy Trade auctions). Finally, any support for training and educational initiatives in this area would be appreciated.

In this context, it should also be examined whether there is scope for the creation of EU marketing standards for some of the main varieties of cheese (along the lines of the Codex Alimentarius standards) which could be used as a benchmark for the purpose of developing cheese futures.

Trade as the 'third pillar of CAP'

It is crucial that agricultural policy is coherent with other EU policies and visa versa. In this vein, trade should formally be recognised as the 'third pillar of CAP'. The EU currently exports approximately 12% or 13% of its milk production in the form of various dairy products and this share is growing. With output forecasted to continue to increase faster than domestic consumption in the EU over the next decade (+14 million tonnes milk produced vs + 8 million tonnes milk equivalent consumed), exports will be the necessary outlet for almost half of the extra milk.

The EU dairy sector needs trade now more than ever but we will only benefit from the growing global demand if we are able to compete at least on a level playing field with the other major dairy exporters. This is why dairy should be put at the heart of all trade negotiations and definitively no longer considered sensitive. In addition, a rethink of the trade policy is necessary to avoid a repetition of the

turmoil surrounding the conclusion of CETA. A strong EU trade policy is all the more important in an increasingly challenging environment characterised by rising populism and protectionism.

Safeguarding the EU single market

While third country markets are increasingly important, the vast majority of the milk produced in the EU will also in the future be consumed within the internal market, with roughly 1/3 being traded between EU Member States in the form of various dairy products. In order to ensure the proper functioning of the dairy supply chain, it is vital that seamless cross-border flows of milk and dairy products can continue to take place within the EU.

It is in this context that Eucolait was concerned by the proliferation of protectionist rules on origin labelling emerging from a number of Member States and tolerated by the European Commission. Referring again to the matter of coherence between EU policies, it is absolutely unworkable for the CAP to be fully effective when contradictory policy decisions are made in other fields. A common agricultural policy requires a common market.

Supply chain dynamics and unfair trading practices

Eucolait strongly supports the principle of freedom of contract and is not in favour of additional regulatory initiatives to manage the relations between the various links in the supply chain. Such interference places additional burden on operators and is damaging to the market dynamics without bringing any value added. In the end, prices are always driven by supply and demand fundamentals which cannot be changed through supply chain regulation unless prices or production volumes are being fixed which should certainly not be the objective. Producer organisations can however have a role in helping its members adjust supply to market requirements and in contributing to the development of tools to manage their price risk.

That said, unfair trading practices (UTPs) should of course be addressed. To this end, Eucolait considers the Supply Chain Initiative to be the appropriate tool at EU level. In addition, the comparison of existing legislation in this area at Member State level is certainly a worthwhile exercise in order to determine whether a higher degree of harmonisation should be envisaged, while keeping in mind this is essentially a Member State competency.

In the dairy sector, contractual relations are already partly addressed with the 'milk package' which is likely to be extended beyond 2020. We do not believe there to be a need for additional supply chain regulation in our sector.

Conclusion

Eucolait believes in a healthy and competitive European dairy sector with a leading position on the global market and therefore fully supports a continued market-orientation of the CAP. This market orientation needs to be accompanied by a strong trade policy, a well-functioning internal market as well as comprehensive, reliable and timely market information to provide operators in the dairy supply chain with the right signals and to help with the development of risk management tools.