



29 March 2017

A European spring (flush)

As we slowly awake from the winter and the milk starts flowing on farms across Europe, it can only mean one thing - the flush is here. An annual occurrence, the flush is accompanied by a special set of circumstances this year, namely 350,000 tonnes of skimmed milk powder which has entered into intervention since July 2015.

We find ourselves sitting atop a protein mountain - not for the first time in history, and not on one as high as in the 1970s and 80s - but concurrently in an unusual situation. The divorce between fat and protein prices means that while the farm gate milk prices are currently quite respectable, we are about to have SMP enter into intervention again.

Speaking of divorce, the flush is also accompanied by a special set of political circumstances this year. A few days after European leaders have returned to their desks from the celebrations in Rome, the infamous letter from Theresa May formally announcing the UK's intention to leave the Union was handed over to Council President Donald Tusk this afternoon. What a coincidence that triggering the article 50 procedure coincides with the 60th anniversary of the Rome Treaty establishing the European Economic Community.

60 years of the European project is unquestionably an important landmark. A lot has been accomplished – free movement, growth and most importantly maintaining peace – and our continent is without any doubt in a much better shape than it was in the post-war 50s. Still, the state of the Union today gives little cause for celebration as Member States are struggling to find common ground on the key challenges in today's changing world, to the benefit of populists. Fortunately the Dutch elections did not add fuel to the fire and there is hope the French ones which are just around the corner will not either. The differences of opinion among EU countries are reflected in the quite watered down Rome declaration which also hints at the possibility of a multi speed Europe.

So what is next in the Brexit timeline now that things are getting serious? The first step on the EU side will be the adoption of negotiation guidelines setting out the overall position and principles in light of which the Commission will negotiate on behalf of the EU. This should be done at the Council meeting scheduled for 29 April and be followed by the adoption of the negotiating mandate, paving the way for the start of the negotiations, possibly in May or June. This leaves a very short time frame for the talks that should be finalised by October 2018. In addition, the UK is looking to negotiate the future economic and security partnership simultaneously with the divorce agreement. While having a trade deal in place the day UK leaves would also be our preference, the immediate priority is to ensure a solid transitional agreement for the post-Brexit period in case the future trade relationship will only be discussed after the divorce, as is the position of the EU.

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Back to more immediate dairy policy matters, what can we expect in the months to come? Simultaneous intervention buying and selling of SMP perhaps, but only if the Commission decided to accept lower prices (and if there are still offers). But come out it must at some point and tendering is the only way to do it. A scheme for the use of intervention stocks under the European fund for the most deprived does currently not exist. There is however a legal basis for such a scheme and the Commission and Member States are reportedly working on some drafts. But it appears unlikely anything will be in place in time to deal with the current stock problem and even under an aid for the most deprived programme, the intervention powder would still have to be released on the market. Food aid seems out of the question as there is no wish to mix food assistance and market management. Nor would it be compatible with EU rules to sell all the powder to, say, Mexico as has been suggested.

Reducing the existing stock level is one problem but the Commission will also want to limit any increase of those stocks. If product is offered into intervention, it has to be accepted but an increase of the 109 000 tonne-ceiling as was done last year is probably not on the cards, especially if milk prices are doing well. This means tendering if we get to the 109 000 tonnes. Aside from public intervention, we should also not count on any PSA programmes being reactivated.

Next to intervention, Brexit and the adventurous US foreign and trade policy, there are some bright spots as well. Butter and cheese demand appear to remain solid and European cheese exports should experience a further boost once the CETA deal with Canada is provisionally applied, probably in June.

Still on the trade front, Japan has reportedly realised an agreement with the US will not happen anytime soon which in turn improves the odds for a swift conclusion of the EU-Japan trade deal, possibly already in the summer. The outcome for dairy remains uncertain as European and Japanese expectations continue to diverge and the Japanese dairy sector is subject to a policy reform which should be adopted in the coming months.

Trade and openness are not just essential for economic growth but for geopolitical stability as well. Let us hope the tide is about to turn again, that we will learn the appropriate lessons from Brexit and that the EU's 70th anniversary celebrations take place in a more cheerful context.