



Five decades of EU dairy policy

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The history of what is currently our largest member delegation GemZu is closely linked with the history of Eucolait and of European dairy policy. Dutch organisations which later constituted GemZu were among the founding fathers of Eucolait at its creation in 1959. In addition to the desire to get to know the colleagues from the neighbouring countries and to work together, there was a request from the Commission's Directorate General for Agriculture to have a close dialogue with the dairy trading community to help with policy development.

Today, as intervention seems to dominate market discussions and we have the highest stocks of SMP since the early nineties, it is good to remember the EU dairy sector has never been as free from government influence as it is today.

In addition to the 50th anniversary of GemZu, 2017 marks the 60th anniversary of the Treaty of Rome which was signed on 25 March 1957 and established the European Economic Community. Modified on several occasions and today called the Treaty on the Functioning of the European Union (since the Lisbon Treaty), it contains the foundations of the Common Agricultural Policy (CAP) which have remained virtually unchanged over time.

The EU's dairy policy came into being in the 1960s as part of the CAP, born in 1962 and followed by the common market organisation for dairy products in 1968. However, the first Eucolait position paper on the CAP was already presented to the Directorate General for Agriculture in 1959. In the post-war era, food security was the primary objective, achieved with price support to farmers. The CAP was introduced by the six founding members with a high degree of government intervention in agriculture which had to be harmonised at Community level to ensure the proper functioning of the common market for agricultural products.

The objective of food security was rapidly achieved but the price support mechanisms quickly led to oversupply, also in the dairy sector, where butter inventories already grew rapidly in the late 60s and SMP stocks exceeded 1 million tonnes in the mid-70s. And thus came to be the infamous butter and milk powder mountains often mentioned by current Farm Commissioner Phil Hogan. The milk quotas were introduced in 1984 to address these structural surpluses, constraining EU production for a period of 31 years. This was also a period of change for Eucolait as Annelie Gehring – who was to manage the association for 18 years – took over the then somewhat unstable organisation and helped it thrive during the era of successive EU enlargements culminating in the 2004 expansion.

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Although the level of intervention stocks decreased over the years, it is questionable whether the quota system was ever a successful policy, especially when evaluated against the billions of euros of superlevy payments. Moreover, export refunds were still needed to discharge some of the surpluses on the world market as were various subsidy schemes to stimulate internal consumption, such as the bakery and ice cream schemes for fat and the casein aid and SMP for feed programmes for protein.

A major overhaul of the CAP was undertaken with the 1992 MacSharry reform that began the famous shift from producer to income support, the goal being to make EU agriculture more competitive, while stabilising budget expenditure. This change did not reach the dairy sector until more than 10 years later with the 2003 reform. Intervention prices for butter were slashed by 25% and 15% respectively over a few years and milk producers were granted direct payments for compensation. It was also decided to extend the milk quotas until 2015 and their abolition that year was reconfirmed during the 2008 'health check'.

By the end of the first decade of the 21st century, the allocation of the CAP budget had changed completely. The bulk of the funds were now used for decoupled payments (some possibilities for support coupled to production still exist, including for dairy), the share of market measures had decreased to the benefit of rural development, and the use of export refunds stopped altogether.

The 90's and 2000's were also characterised by an increased focus on quality, mainly in the form of the sometimes very controversial protection of geographical indications, on rural development and on environmental measures. With the development of EU food law, interactions between the CAP and this policy area multiplied. Think for instance about the everlasting debate on origin labelling. Trade policy started to play a crucial role, first with the multilateral Marrakesh agreement establishing the WTO – I have been told the Eucolait WTO working group and Peter Poot as its member were quite involved when it came to the dairy concessions – and subsequently with the proliferation of bilateral negotiations. In this period also the work of Eucolait became more and more diversified from the initial focus on dairy market measures and the staff grew from 1 to 4.

The 2008-2009 dairy crisis pushed the Commission to establish the High Level Group Milk that should draw the conclusions from the crisis for future dairy policy measures. The group paid particular attention to the position of farmers in the dairy supply chain, paving the way for the adoption of the 'milk package' in 2012 which clarified the conditions for collective bargaining and gave Member States the opportunity to introduce mandatory written contracts for milk deliveries.

The 2013 review was criticised by many as a non-event, mainly because of the environmental component which was seen as being too weak despite the 'greening measures'. Not much changed in terms of dairy market management. Insisting on the safety net character of market measures, the automatically triggered, yearly private storage aid scheme for butter was abolished to the dismay of most GemZu and Eucolait members. In return, PSA as an emergency tool was extended (again) to SMP and certain cheeses. The public intervention regime remained unchanged with minor procedural adjustments such as the obligation for the Commission to continue buying-in by tender once the maximum ceilings are reached. The push from the European Parliament's Committee on Agriculture to replace the quotas with another, crisis oriented supply management scheme, was discarded. The 2013 reform was by and large appreciated by dairy traders as the market orientation of the CAP was not questioned but rather reinforced.

Another important milestone was the creation of the milk market observatory in 2014, the idea being that in the post-quota free market environment, all market participants and the Commission should have as much information on the state of the dairy market as possible. Eucolait has been a member of the observatory's economic board since the beginning and is committed to the transparent dialogue with other dairy actors in that forum.

The big day finally came on 1 April 2015. The enthusiasm about the quota removal was however quite short-lived because of the crisis that followed but which was only in part due to the investments made in light of the end of quotas. The main causes were global overproduction driven by high milk prices and a simultaneous Russian embargo and a temporary slowdown in global demand, notably in China.

In the midst of the crisis, the Commission was keen to make full use of its greater emergency powers under the Common Market Organisation, by testing a variety of mechanisms ranging from the controversial milk production reduction aid scheme to enhanced versions of the traditional combo of public intervention and private storage.

The evolution of EU dairy policy, whereby the Commission has gradually turned from a full time market manager to an active observer has also been visible in the work of Eucolait and in our interaction with GemZu. Less time is spent on analysing measures such as intervention, tariff quota administration or even export refunds combined with the horrible proof of arrival requirements. The focus is increasingly on trade policy, trade barriers (within the EU and beyond), on gathering and assessing market information and more recently Brexit.

Looking forward, the reflexions on the future CAP post 2020 have already begun. Budget negotiations will be tough (not helped by Brexit) and a strong focus will be placed on the relations along the supply chain, the environmental performance of the CAP as well as resilience against volatility. With the support of its members, Eucolait will again defend the market orientation of the dairy policy with the existing safety net, while encouraging the development of risk management tools, in particular futures markets, to address the challenges posed by increased price volatility. With growing milk production, the EU will be increasingly dependent on its exports for its market balance. It therefore seems crucial that trade is formally recognised as the third pillar of the CAP. Moreover, we need to take care of the functioning of the internal market without which a common agricultural policy makes little sense. This is all the more important in the current climate of increasing protectionism (luckily not reflected in the recent Dutch election results).

Eucolait can look back to a long fruitful cooperation with GemZu. Henk Hoogwegt was President from 1992-1995 and reportedly brought modernity and "business style" to Eucolait. Since then (and probably also before), there has always been a Dutch Vice-President, a Product Committee Chairman and with Wim Kloosterboer - with whom I had the pleasure to work for 2 years – also a Secretary General.

Last but not least, together with Onno Boersma, we are proud to organise our General Assembly in Amsterdam this year in view of GemZu's anniversary celebrations. And where was the 1967 Eucolait General Assembly held? In Amsterdam, of course!

On behalf of the whole Eucolait team, I wish GemZu all the best for the next 50 years!

Jukka Likitalo

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