



Eucolait position on the Initiative to improve the food supply chain

With this paper, Eucolait, representing European wholesalers, exporters and importers of dairy products, wishes to contribute to the debate on improving the food supply chain, as far as the dairy sector is concerned.

Trade has an important role in the supply chain by providing a variety of services to business partners such as market and technical expertise, risk management, tailor-made products as well as financial and logistical services. It limits market inefficiencies by matching supply with demand, i.e. by ensuring that all dairy products find a home either within the EU or on the global market. Trade helps securing value for all participants in the supply chain and reducing price volatility.

In order for the dairy sector to flourish, competitiveness and a well functioning market without undue barriers are crucial. Eucolait therefore supports policies which enhance the market orientation of the EU dairy supply chain and improve the functioning of the internal market.

The ongoing public consultation in relation to the initiative covers the 3 policy areas for which the Agricultural Market Task Force (AMTF) suggested regulatory changes: unfair trading practices (UTPs), market transparency and possibilities of farmers to cooperate. We would like to provide comments on these 3 topics.

Unfair trading practices (UTPs)

We consider it important to address unfair trading practices in the food supply chain. As such, we support the Supply Chain Initiative (SCI) to which we have contributed since its establishment through our umbrella organisation CELCAA. The SCI is still in the process of developing its full potential but it has already proven to be a very useful tool for promoting fairness in commercial relations along the food supply chain and raising awareness about UTPs. It is a remarkable effort of self-regulation which the EU should continue to support.

In general, Eucolait believes in the 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 interferences pose the risk of putting additional burden on operators and could damage market dynamics without bringing value added.

The dairy supply chain is much more complex than the commonly presented producer-processor-retail image would suggest. Milk is processed into a multitude of dairy products which can be broadly split into consumer products and ingredients for the food industry. Some dairy products like cheeses and butter are both consumer products and ingredients, whereas dry dairy products (milk powders, whey derivatives and casein(ates)) are mostly used for further processing. Consumer products are sold via



retail and the food service sector while dairy ingredients are used in a huge number of applications (including dairy) such as chocolate, bakery products, processed cheese, pizza, various ready-to-eat foods, sports nutrition and infant formula. In addition, all consumer dairy products, ingredients and the composite products incorporating dairy ingredients are sold both on the EU market and in third countries. The demand developments in all these segments ultimately influence the milk price. However the returns for the 'surplus commodities' butter and SMP have the highest impact on milk prices due the substitutability of milk and the obligation or at least commitment of dairies to collect all milk delivered to them.

In light of this complexity of the dairy supply chain(s), it is very difficult to determine which UTPs (if any) have a negative impact on its functioning. Traders, like other parts in the supply chain are faced with UTPs such as unilateral withdrawal from a contract without a justified reason, withholding essential information, late payments (partly addressed with the late payment directive) or non-payments, late delivery or non-delivery and other cases of non-compliance with concluded contracts. In addition, the sector is exposed to fraudulent and criminal activity. Goods are being stolen through identity theft of a respectable company or by setting up a fake business. Nevertheless, we feel that these practices will not stop with additional legislation prohibiting them. Given that UTPs are already addressed one way or another in most Member States, the emphasis should be put on better enforcement and improved information sharing. Often UTPs are not even reported on because of the 'fear factor' or simply because it is considered a waste of time and resources.

While trade is not the primary target of any potential regulation of UTPs, we are concerned our members might suffer some collateral damage in the form of red tape. New legislation might also run against the "better regulation" policy to reduce the regulatory burden generated by the EU.

This said, the comparison of existing legislation covering UTPs at Member state level (reportedly 20 Member States already have legislation in this area) is certainly a worthwhile exercise in order to determine whether a higher degree of harmonisation should be envisaged. If further regulatory action is taken, it is preferable a common framework is introduced at European level to avoid too much divergence between Member States which may be damaging to the functioning of the internal market.

Producer cooperation

Linked to UTPs is the more general issue of the bargaining power of each link in the supply chain. In the dairy sector, the 'Milk Package' which has been in force since October 2012 has the objective to improve the negotiating position of producers vs the processors or other first purchasers of milk. The second report on the implementation of the milk package from November 2016 concluded that more time and efforts are required for the full potential of the package to materialise. It should also be added that more than half of the milk in the EU is delivered to cooperatives owned by their producer-members. Hence, we see no need for further regulation of the dairy supply chain. Concerns over the (too) dominant position of certain downstream actors is a matter of general competition policy.

Prices are driven by supply and demand fundamentals. This is a fact that cannot be changed except by fixing (minimum) prices or production volumes, features that should not have any place in a market oriented CAP.

Nevertheless, Eucolait acknowledges that producer organisations can play a role in helping its members to adjust their supply to market requirements and to contribute to the developments of (price) risk management tools. As, according to the mentioned implementation report, there is still potential for producer organisations and associations of producer associations in some EU member states, it seems adequate that the Commission continues to support the implementation of the milk package in this regard.

While we are not familiar with the value sharing mechanism in the sugar sector mentioned in the consultation, we believe negotiating the milk price is a matter between the producer (potentially through a producer organisation) and the processor. Moreover, a comparison between the EU milk price average and the milk price equivalent based on butter and SMP shows quite good correlation between the raw material price and the product prices, even if there is a certain time lag.

Market transparency

The market orientation of the EU dairy sector needs to be accompanied by comprehensive, reliable and timely market information to assist operators in the dairy supply chain with their daily business and decision making.

Transparency of the EU dairy market has improved considerably since the launch of the Milk Market Observatory (MMO) in 2014. Although most of the information and data is not new as such, the MMO has established itself as an important information platform for all dairy stakeholders. This is because most relevant data is now easily accessible in one place and presented in a digestible manner. At the same time some improvements are still desirable. Faster publication of the data on production, EU trade flows and stock levels (intervention and private storage) would be very useful. In addition, (milk) production data from certain Member States is far from reliable, limiting its value for industry players and falsifying the total EU production numbers. Depending on the source, monthly production number can vary greatly.

We believe furthermore that it would be very helpful if the Commission would collect and publish price information from the main futures markets as they give an indication about possible price developments looking forward. The publication of consumption data would further complete the picture on the MMO platform. Adding information on input costs might also be considered.

Overall, the focus should be on further improving the quality and timeliness of existing data. New reporting requirements for the industry should not be put in place.

Conclusion

In our view, additional legislative measures would not be helpful for the dairy supply chain. Existing shortcomings, as mentioned above, can be addressed through better enforcement and non-legislative initiatives. Policy efforts should focus on further enhancing the competitiveness of the EU dairy sector, on ensuring the internal market is not disrupted and on striving for a level playing field on the global market.