



11 March 2021

Considerations on proposed changes to the Single Common Market Organisation regulation

Eucolait supports a market oriented dairy policy. Since the mid 2000's, the European dairy sector has gone through significant changes and a gradual liberalisation process, culminating in the abolition of the milk quota system in 2015. A return to the past is neither feasible, nor desirable. We are therefore quite satisfied with the single Common Market Organisation (sCMO) proposal presented by the Commission in 2018 and the position taken by the Council, which contained minimal changes with respect to the dairy sector. The current sCMO based on Regulation 1308/2013 serves dairy well, protecting terms reserved for milk products and allowing for a measured level of market intervention. The market management measures provide a safety net in times of market disturbance and overall they have proven their value to the sector. A certain degree of price volatility is inevitable and even needed for a dynamic marketplace, but managing extreme price volatility requires appropriate instruments, both private and public.

In the context of the ongoing trilogues to finalise a sCMO regulation for the next CAP (as of now projected to apply from 2023), Eucolait asks legislators not to disrupt a system that by and large works well for stakeholders in the dairy supply chain. We acknowledge that the EU dairy sector needs to further enhance its economic, social and environmental sustainability performance but do not believe these challenges can be addressed by increased market regulation. There must not be 'change for the sake of change'.

Comments on key amendments proposed by the European Parliament

Public intervention

Eucolait is strongly opposed to the proposal that the intervention trigger price should be raised and should be linked to production costs. This would give a wrong signal to operators and defeat the purpose of public intervention as a safety net, only to be used to tackle the most challenging market conditions. Such a change would encourage "producing for intervention", leading to tremendous public stocks blocking upward price momentum and creating a big hole in the EU budget. It would also destroy EU's price competitiveness on the world market and lead to a further surplus of milk in Europe.

Instead of raising the intervention prices, the trigger could be a combination of the SMP and the butter price. This would avoid buying-in of SMP when butter prices are sky-high (or vice versa) and when the milk price is decent. Alternatively, the automatic trigger could be scrapped altogether, so that the Commission would decide on case-by-case basis on when to proceed to buying a particular product into intervention (by tender), considering the overall prevailing market conditions.

A case can also be made for having public intervention open throughout the year. We have seen during previous periods of low prices that they do not necessarily coincide with the higher production cycle during the spring and summer months. From a point of view of certainty and transparency, it would be better to have public intervention open all the time than extending or bringing forward the intervention period on an “as needed” basis, as has been done in the past. However, if the current regime of buying-in at fixed price is maintained, public intervention all year round can also increase the risk of the Commission being obliged to buy product at a time when it would in fact not be opportune to do so.

We also strongly oppose the European Parliament amendment calling for the publication of the details of companies selling product into public intervention or buying product when it is released from storage, including information on selling/buying volumes and prices. Such information is commercially sensitive and a mandatory reporting and publication requirement would pose a disincentive to companies to utilise this market measure in the future, undermining the efficiency of the intervention mechanism.

Although not directly covered by the sCMO regulation, we wish to highlight the necessity to ensure that the product sold out of intervention can be used, without undue barriers, for any planned applications. In the recent past, we have observed obstacles to the commercialisation of intervention SMP such as the lack of a minimum durability date, difficulties in obtaining veterinary certificates for exports and requirements under the animal by-products and feed labelling regulations when the product is to be used for feed. In addition, we have seen that some of the product in public storage does not in fact correspond to the intervention specification and in some cases the quality has seriously deteriorated due to inadequate storage conditions (sometimes to the point where the product cannot be used at all). These are all issues that need to be properly addressed if the system were to be used again in the future.

Milk production reduction scheme

The milk quota system was abolished for good reasons – it constrained growth, was very costly and did not prevent structural change in the sector - and we feel that creating a public supply management system “by the back door” would be a significant step backwards. In particular, the proposal set out in Article 219(b) that would penalize producers that increase their production at times of perceived market imbalance takes the sector back to the punitive days of the super-levy. Mandatory public supply management has no place in a market orientated CAP. Concerning temporary milk production reduction aid, as implemented by the Commission in 2016, this can already be put in place within the boundaries of the current sCMO, even if not explicitly foreseen in the regulation. We do not believe that production can be efficiently managed at European level with the desired result of increasing prices, not least because of our considerable exposure to the global market. Indeed, supply management only works in combination with strong border protection and a policy of self-sufficiency (Canada model). The adjustment of supply to demand must be achieved by the players in the dairy supply chain. However, if any measures with a view to limiting milk output are to be introduced, they should always be based on reward rather than the threat of sanction.

Other exceptional measures in cases of market disturbance

We do not see any need for widening the scope of the exceptional measures. In particular, the already considerable prerogatives of producer organisations and interbranch organisations should not be extended further. As far as market monitoring is concerned, the Milk Market Observatory has proven its value since 2014 and should be maintained in its current form. It should remain an observatory, a forum for the Commission and stakeholders to exchange and take stock of market developments. Its conclusions should help all operators take the most appropriate actions in a given market situation. We do not support the idea of a super-observatory covering all sectors and tasked with an early warning mechanism on which market intervention measures would be based.

Extending EU standards to third country trading partners

In an ideal world, there would be a perfectly level playing field in global trade. We understand the temptation to request that all imports comply with EU norms, not just on food safety but also for instance on environmental protection, health or animal welfare. We should however keep in mind that EU companies export dairy and other agricultural products around the world, without having to fully align themselves with all legislation of each destination country. Any efforts to impose standards on trading partners must be taken in a proportionate and prudent way and should always comply with WTO rules. It is a two-way street and recent history has shown that partner countries are ready to retaliate at what they perceive as disproportionate action against their industries. Instead of imposing its standards on all trading partners, the EU should seek solutions to improve the overall sustainability of food systems through its FTAs and in the relevant multilateral fora.

Marketing standards

We support the enhanced protection granted to dairy terms in the European Parliament's position. It is merely a clarification of the existing legal situation, incorporating the case law of the Court of Justice, but this will help address the misuse of dairy terms to designate plant-based products. The European Parliament further appears to seek an extension of the scope of the marketing standards to milk and milk products, beyond the existing marketing standards and sales description covering spreadable fats and drinking milk, enshrined in the sCMO. In addition to these, marketing standards for dehydrated milks, casein and caseinates are laid down outside the scope of the sCMO. We do not see a need for adaption to reflect "constantly changing market conditions" or "evolving consumer demand" and any additional EU marketing standards should be fully in line with existing Codex Alimentarius standards in order not to introduce complications in international trade. Codex should also be the preferred forum for developing new standards. Marketing standards should be limited to basic compositional requirements and not cover for instance the sustainability features of a product which can be subject to specific labelling schemes.

Conclusion

In summary, Eucolait hopes to see the current market orientation confirmed in the new sCMO regulation. Policy efforts and funds should now be focused on making the CAP more sustainable and not to turn back time to the days of costly interventionist policies.