

Considerations on the next CAP with a focus on market instruments and trade related aspects

One year after the application of the current Common Agricultural Policy, preparatory discussions on the shape of the next CAP (applicable post 2027) have already begun. Simultaneously, a Strategic Dialogue on the Future of Agriculture is taking place. Eucolait is therefore keen to reiterate its support for a market-orientated and incentive-based policy, which builds on the direction taken in successive CAP reforms since the 1990s (the early 2000s for the dairy sector).

1. Coherence and simplification

The future of the dairy sector is increasingly being shaped by horizontal legislation far beyond the scope of the CAP. Recent examples under the Green Deal include the nature restoration law, the deforestation regulation and the corporate sustainability reporting directive, to name but a few. The CAP must be coherent with these connected policy areas.

In the broadest terms, the CAP should ensure the (economic, environmental and social) sustainability and competitiveness of EU agriculture. The recent protests once again confirm that the farming community does not consider this currently to be the case. A key challenge is the administrative complexity of the CAP which appears to have gotten worse despite stated simplification goals. This is probably the result of multiple compromises in the CAP negotiations and the historical heritage of previous reforms which constitute the starting point for each revision. The growing emphasis on greening requirements brings a further layer of complexity. It therefore seems to us that radical simplification combined with a shift from overly prescriptive requirements to an incentive-based and outcome-oriented policy should be the goal. In other words, carrot instead of stick and focus on outcomes rather than measures.

2. Agricultural trade policy: openness now more than ever

Better cohesion is also needed between policies governing agriculture and trade. In this context, we once again call for trade policy to be recognised as the third pillar of the CAP. Trade bridges supply and demand and will be a crucial element in guaranteeing food security in the years and decades to come. Recent climatic and geopolitical developments, the rise of right-wing populism in some EU Member States and environmental pressures threaten the hard fought for openness of EU policies, but also highlight the importance of avoiding insular and isolating approaches. The single market is one of Europe's key achievements and maintaining its integrity must remain a top political priority. In terms of external trade, it will be crucial to conclude further FTAs with strategic partners and to ensure that EU's unilateral trade instruments remain conducive to trade.

At every step in the creation of the next CAP, the consequences of policy decisions for trade should be kept at the forefront of discussions and increased protectionism should be avoided at all costs. Attempts to impose EU production standards on third country partners (so called mirror clauses) should be approached in a proportionate and prudent fashion, in line with WTO rules. While EU leadership on climate action is welcome, partner countries are likely to retaliate at what is perceived as patronising or disproportionate action levied against their industries. Therefore, it is vital that any discussion on environmental, animal welfare and other standards not affecting food safety, is maintained as an open dialogue.

3. Content of the CAP: market measures and producer support

CAP strategic plans

The national CAP strategic plans form the core of today's CAP, a policy that is somewhat less common than previously, the objective having been to grant more flexibility to Member States in tailoring their policy interventions. The main concern expressed against the strategic plans model has been the potential fragmentation of the single market. So far, this scenario does not appear to have materialised but is too early to pass judgement after only one year of implementation.

Market instruments

With the increasing market orientation over the last decades, the importance of the market instruments in the single Common Market Organisation (sCMO) regulation has declined, leaving it largely untouched during the last reform. We would call for changes to be minimal also in the next reform.

The current CAP allows for a measured level of interference in the market, notably in the form of public intervention buying, private storage aid and other emergency tools. A certain level of price volatility is inevitable and essential to a dynamic marketplace. Extreme volatility can however be extremely damaging and should be managed, using primarily private risk management instruments such as fixed milk price schemes, forward contracts, futures and options.

Here are our main observations on the main instruments in the sCMO toolbox.

- **Public intervention for butter and skimmed milk powder**
 - **Avoiding the unintended consequences of public intervention**

Public intervention as a safety net has not been utilised in the last few years. We consider that intervention can be maintained going forward in the next CAP, provided that it remains 'fit for purpose' (i.e. that it is a means of bolstering the market and not weighing on it further).

Problems arose during the last intervention campaign with respect to the commercialization 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, it was occasionally observed that some of the product in public storage did not correspond to the intervention specification or that the quality had seriously deteriorated due to inadequate storage conditions. These matters would have to be addressed going forward if public intervention is to be maintained as a market support instrument.

- **Intervention trigger prices and tendering**

If the current system of buying-in at fixed price is maintained, the threshold price should be a combination of the butter and SMP prices to prevent a situation whereby SMP is eligible for public intervention while butter prices are still high or vice versa. Indeed, intervention should only take

place when milk prices are low and the whole dairy product complex is suffering, not when only one market segment is experiencing a downturn, like in 2017-19.

Another option would be to operate public intervention by tendering only. In this scenario, there would be no fixed trigger price and the Commission would decide on a case-by-case basis when to open the tendering process, taking into account the overall market situation. This type of scheme would likely avoid unintended or unnecessary intervention purchases and the excessive stock build potentially resulting from buying-in at the threshold price.

- **Private storage aid (PSA)**

PSA is a relatively simple mechanism to address price fluctuations and unlike public intervention, it does not generally result in market distortion. We therefore support maintaining this instrument in the next sCMO.

- **Supply management/volume reduction programmes**

Mandatory supply management or production reduction programmes are not appropriate in a market-orientated CAP. Matching supply with demand is a task for the operators in the dairy supply chain, not public authorities. It has been almost a decade since the milk quota was abolished in Europe and reintroducing it by another name or label would be an expensive and cumbersome step backwards. Managing supply will not result in a desired jump in prices, given the EU's exposure to global markets. Given the current flat milk production trend in the EU and the projected decline, current suggestions to control supply appear quite pointless.

Supply management or milk production programmes can be offered in a crisis situation, provided that they remain voluntary in nature. Moreover, any such initiative should operate on the basis of reward and not punishment/penalty.

- **Marketing standards/protection of dairy terms**

The current marketing standards, in particular those covering butter, milk powders and casein(ates) have served the dairy sector well and should be retained. For good reasons, they were largely left untouched during previous reforms and the recent review of the “breakfast directives”. Perhaps

most importantly, the protection of dairy terms has prevented imitation products from usurping the good reputation of dairy names. In order to continue to facilitate frictionless trade, EU Marketing standards should remain in line with internationally recognised standards, such as those of the Codex Alimentarius. Moreover, we are of the view that a multilateral setting such as Codex Alimentarius is the most appropriate forum for creating any new standards going forward, again to ensure that product can be traded internationally with as little hindrance as possible.

- **Supply chain relations**

The CAP should remain alert to developments in supply chain dynamics. However, the most recent EU-wide supply chain initiative – the voluntary code of conduct for responsible business and marketing practices – shows that programmes do not necessarily need to be enshrined in law to stimulate engagement with supply chain actors. Voluntary schemes also give greater scope for a flexible response to signals from the market and allow for ad-hoc actions and initiatives by supply chain players where necessary. We believe that maintaining this voluntary approach and trusting actors along the supply chain to appropriately manage their affairs is the best way forward rather than imposing an additional layer of unnecessary legislation. There should be no interference in the contractual relations between undertakings, with the exception of addressing unfair trading practices.

- **Market transparency**

The dairy market is already operating at a high level of transparency, with plenty of information freely and publicly available from various European and global sources. The Milk Market Observatory (MMO) has contributed significantly to the dissemination of relevant information since its launch in 2014. While much has been achieved on that front, in particular in the positioning of the MMO website as a crucial ‘one stop shop’ for dairy actors seeking information, we would of course welcome a further improvement in the quality and timeliness of the data published. For example, we would welcome a swifter publication of monthly EU milk production and trade data.

Any additional layers of market transparency should serve as a help to the sector and not a hindrance. Extra reporting requirements, for example on margins or processing costs, should not be introduced, as they would represent a burden for operators while delivering negligible added

value. Underpinning any market transparency initiatives should of course be respect for commercial confidentiality and competition law rules.

4. Summary and conclusion

The continuous market orientation of the CAP should be pursued and changes to the common market organisation regulation should be limited to minor adjustments, in so far as the dairy sector is concerned.

For the rest of the CAP, and for food and agriculture policy more broadly, the first step would be to agree on a vision for European agriculture that is broadly shared by the relevant stakeholders. This vision should then be translated into a policy which is simpler, and more incentive based. The recently launched strategic dialogue could help achieve this objective.

Finally, strong coherence and cohesion with other policy areas, in particular trade, will be crucial. Europe is well placed and has a responsibility to continue responding to the growing global demand in a sustainable manner. European policy must ensure that milk production and trade continue to flourish.