



EUCOLAÏT position: medium/ long-term future of dairy sector

Meeting HLG 10 November 2009

EUROPEAN UNION
OF DAIRY TRADE

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EUROPÄISCHE UNION
DES HANDELS
MIT MILCHERZEUGNISSEN

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UNION EUROPEENNE
DU COMMERCE
DES PRODUITS LAITIERS
ET DERIVES

1. Introduction

When we assess the situation at dairy markets during the past few years we saw unprecedented volatility and swings in prices. Whilst some volatility in prices is unavoidable, we certainly have to look at ways to minimize extreme price fluctuations. EUCOLAÏT welcomes in this regard the establishment of a High level group to look at ways of stabilising prices and hence producers incomes and enhancing market transparency.

EUCOLAÏT, the European Association of Dairy Trade has always pleaded for an environment in which market forces determine as much as possible commercial decisions. Trade without hindrances within the EU single market and between the EU and the world market are at the heart of the work of this organisation. For trade, sufficient availability of dairy products at competitive prices and the required quality is also of utmost importance. Therefore we have also to keep a vital primary sector with reasonable prices to be paid for farmers' milk.

2. Position of EUCOLAÏT in relation to the dairy crisis and the emergency measures

Contrary to the situation in the year 2007, market developments in dairy markets in 2008 and the first half of 2009 were poor. Refunds were introduced and intervention was applied.

When assessing these recent market regulatory measures, one has to take into account the unprecedented state of the dairy market. Dairy demand was meager and supply was stable. EUCOLAÏT in general supported measures which were able to counter this crisis in demand.

EUCOLAÏT is convinced that the measures executed recently by the EU have minimized the downturn of EU dairy markets and contributed to recovery. The most effective tool in an emergency situation is intervention. Regarding refunds, EUCOLAÏT never actively promoted the establishment of the instrument but from a retrospective point of view the overall assessment should be that refunds have also contributed to recovery. Conditions for the use of refunds are that they do not spoil prices at the world market and lead to extra volumes of exports. By and large these two conditions have been met and therefore the overall judgment of EUCOLAÏT of the recent emergency measures is positive.

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The present intervention level leads to milk prices of about 21- 22 Euro cts. It is clear that those prices are far below the cost of production. An increase in intervention prices, as mentioned lately by several Member States, would be the most straight forward answer to solve this problem. Nevertheless EUCOLAIT, as a trade organization, is not the first one to comment on such an increase; moreover, such an increase should not hurt the competitiveness of EU dairy.

Next to the level of the intervention prices, volatility of market prices is seen as a major problem. EUCOLAIT is of the opinion that some fluctuation in prices, more than during past years, is unavoidable. The only way of restoring the price stability we had experienced in the years before the Mid Term review, is to increase intervention levels and reintroduce guidance prices. However, this would bring an end to the market orientation we have seen in past years. Eucolait would not consider this situation as preferable.

Therefore we should better concentrate on avoiding extreme volatility and accept normal volatility in pricing.

In order to avoid extreme volatility, an active use of the tool box of the EU Common Market Organization is necessary. Additionally, EUCOLAIT has underlined the importance of futures as an instrument to cope with volatility for individual farmers, processors, traders or buyers of dairy products. EUCOLAIT's work on futures has nevertheless demonstrated that this instrument is not the overall solution.

In the future, EU intervention policy could transform into a buffer stock policy. However, this discussion goes further than just using intervention as a way to limit price volatility and is part of the broader discussion on food security.

3. The medium to long term perspective: the need for new instruments (HLG questions)

Despite the fact that EUCOLAIT, together with the main international organisations like OECD and FAO, remains very positive about the long term demand for dairy products, we have to look at ways to minimize extreme price fluctuations.

As we have said before: the present set of so called “old fashioned market tools”, in particular intervention, have served their goal very well. Prices of the main dairy commodities have increased from the lowest to present levels by about 50%! In order to prevent situations with temporary shortages it is about time to consider releasing in a careful way part of the intervention stock of butter and powder.

More specifically on the-agenda points raised in the HLG EUCOLAIT would like to make the following remarks:

- *Contractual relations between milk producers and dairies to better balance supply and demand on the dairy market*

Although dairy trade is in general not directly concerned, contractual relations between producers and suppliers can have repercussions for dairy trade. Recent experience has shown it is extremely difficult to forecast which volumes are needed by the processor. Next to this quantitative aspect there is also the price aspect. In a situation of forward pricing, the major question is whether the buyer is able to carry the increased risk. If the environment was more predictable and stable, the risk for

both parties to go into longer standing agreements would be more manageable with the help of market instruments. Of course this is the preferable option.

- *What can be done to strengthen the bargaining power of milk producers?*

This question suggests that the milk producers are in general the weakest party in the chain. Fortunately this is not always the case. Often producers have a good long standing relation with the private processors or are even owners themselves in a cooperative. Of course producers have the possibility and in particular cases should go together. But the point we want to make here is that it is not the unwillingness to pay the right price but the payment capacity which is at stake.

Interprofessional organisations are often mentioned as a means to regulate markets. EUCOLAIT would like to state here that that we are reluctant to this solution if it leads to infringement of the free market principles. Prices should preferably be determined by sound market forces and not set by cartels. If such organizations would nevertheless further be promoted, it is important to agree on a common EU framework and make sure that all the stakeholders are equally represented.

At the same time we see tendencies at the moment to frustrate the free internal market by mandatory national origin requirements.

In fact it would therefore be advisable that adequate conditions are created, a sound economic environment whereby all the various actors in the chain can flourish. In view of EUCOLAIT the best guarantee for the well functioning of the internal EU dairy market is that the Commission maintains and executes its role as responsible overseer to guarantee the right environment. If Brussels does not fulfill this role, national initiatives will take over and we are running the risk of hurting the free movement of goods within the EU.

- *Transparency for the benefit of milk producers, dairy industry and consumers*

In general EUCOLAIT appreciates efforts that could contribute to increased transparency of the dairy chain. Generic information on for instance production, storage, consumption, exports and imports are among the basic data operators in the market will need to manage their business. Apart from a wide area of information operators also need timely information. In this respect, the EU could learn something from the situation in the United States where a whole range of relevant statistical information is available. Based on this information operators in the market can make appropriate decisions.

When we turn to quality and information EUCOLAIT can state again that we support every effort which could contribute to communicating relevant information to the consumer. In this respect, marketing standards are important instruments for both producers and consumers ensuring they get the products they want. The existing standards for dairy products have worked well and should be maintained. However, EUCOLAIT opposes the misuse of certain information as a protectionist measure. In this context, we have strong reservations about mandatory "place of farming labeling" for agricultural raw materials.