

Monitoring Agency

Flexible Management of EU Milk Supply

Expertise commissioned by the European Milk Board (EMB)

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The EU dairy sector: developing beyond 2015

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Our starting point





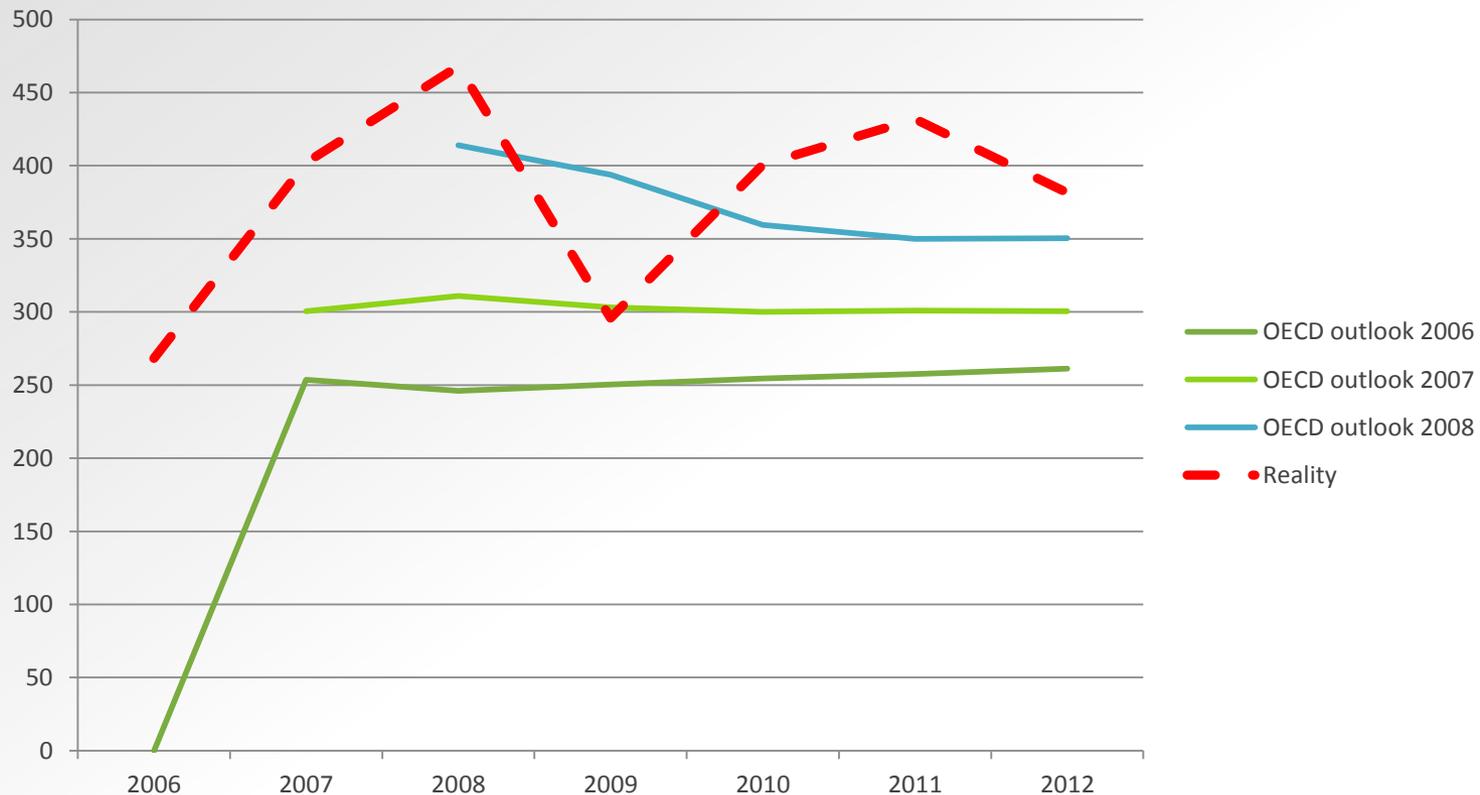
Key stakeholders



Forecasts and reality

Forecasts are fine – but reality changes quickly

Forecast export price cheddar in USD/100 kg



Source: OECD-FAO Agricultural Outlook (several years)

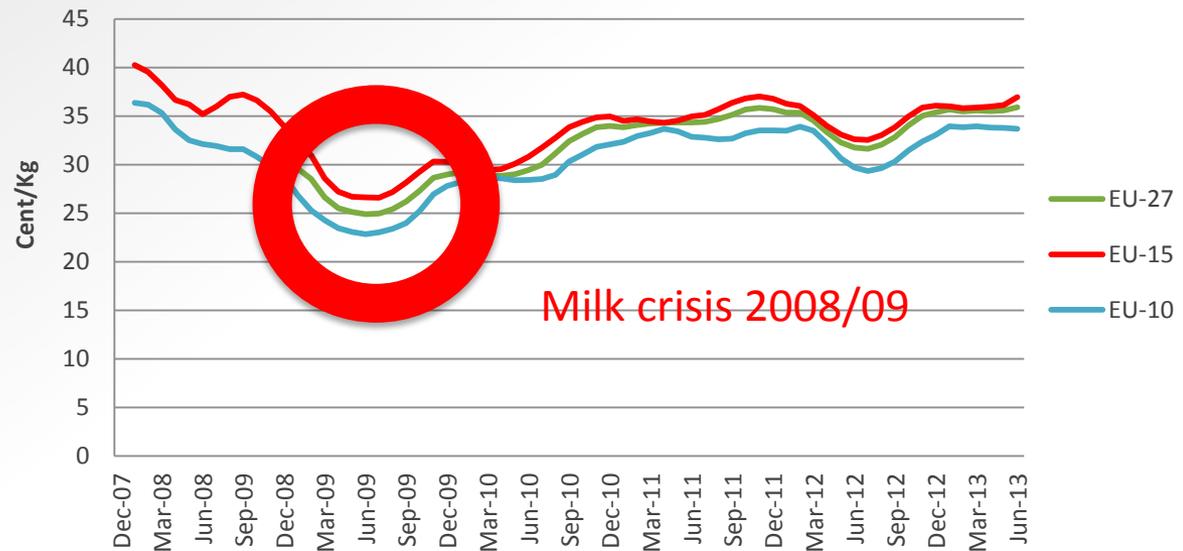
Milk crisis: The future has already started



Globalisation and new challenges

- De-regulation of EU milk market(s)
- Surplus and falling farm gate prices
- Strong impact of volatile global milk prices on EU milk prices
- Crisis 2008/09 after price peak 2007

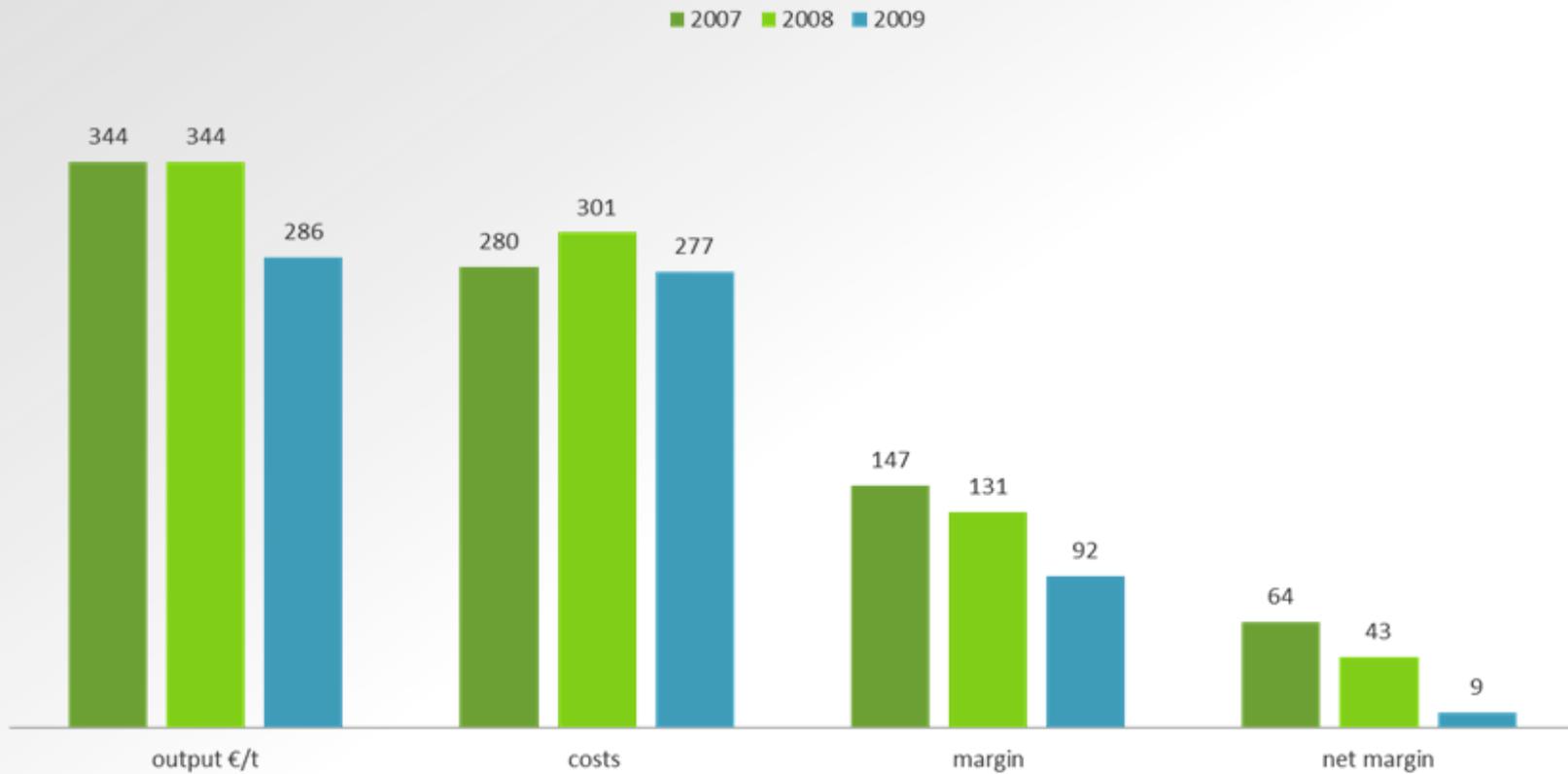
Development of farm gate milk price in the EU
(real fat, ct/kg)



Source: Circa.eu Basic Dairy Statistic

Impact of the crisis on dairy farms in EU-27

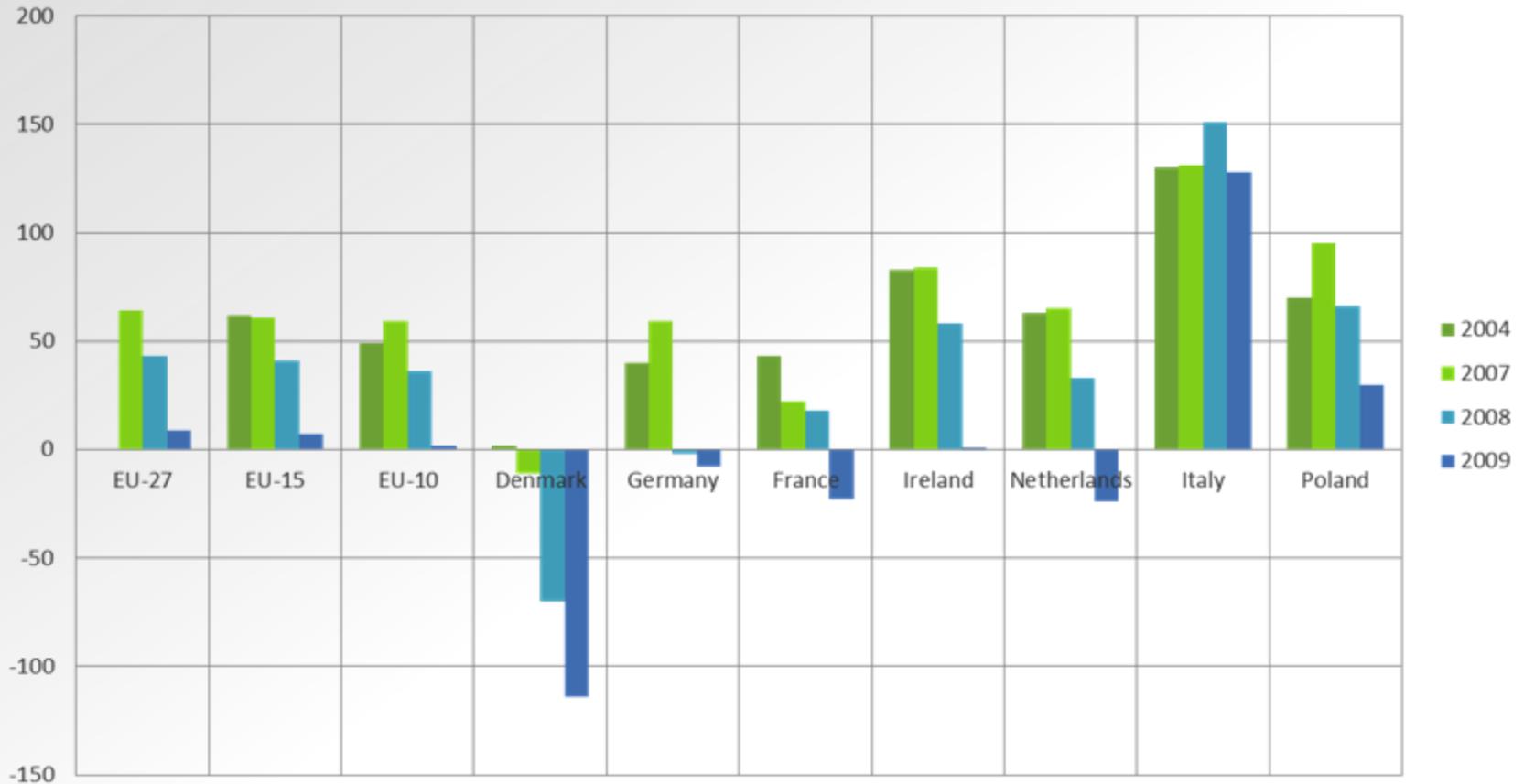
Output, cost, margins in milk specialised farms EU-27



Source: EU-KOM (2013) Dairy farms report, FADN data

...with large differences between EU member states

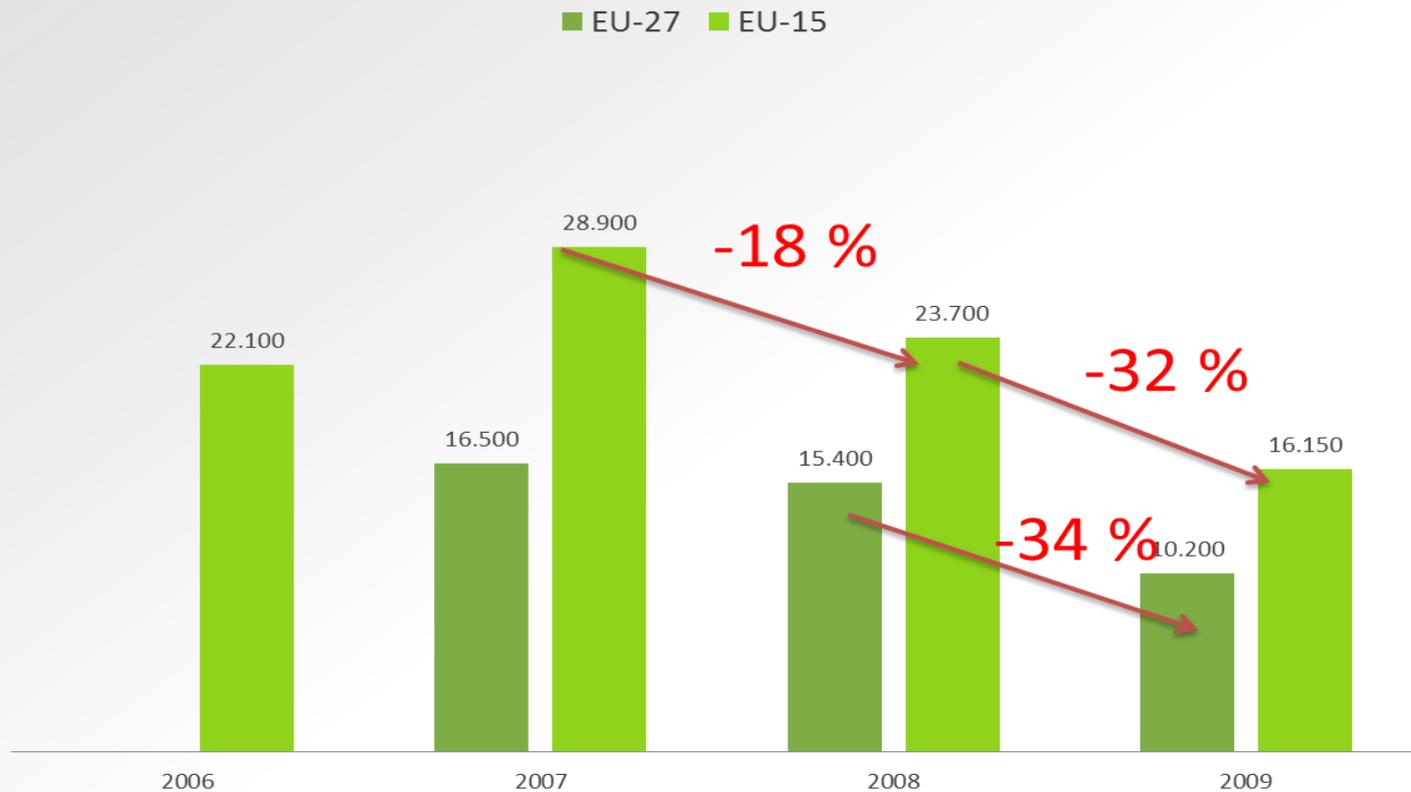
Milk net margin (in euro/t) in milk specialised farms



Source: EU COM (2013) Dairy farms report, FADN data

Loss of income

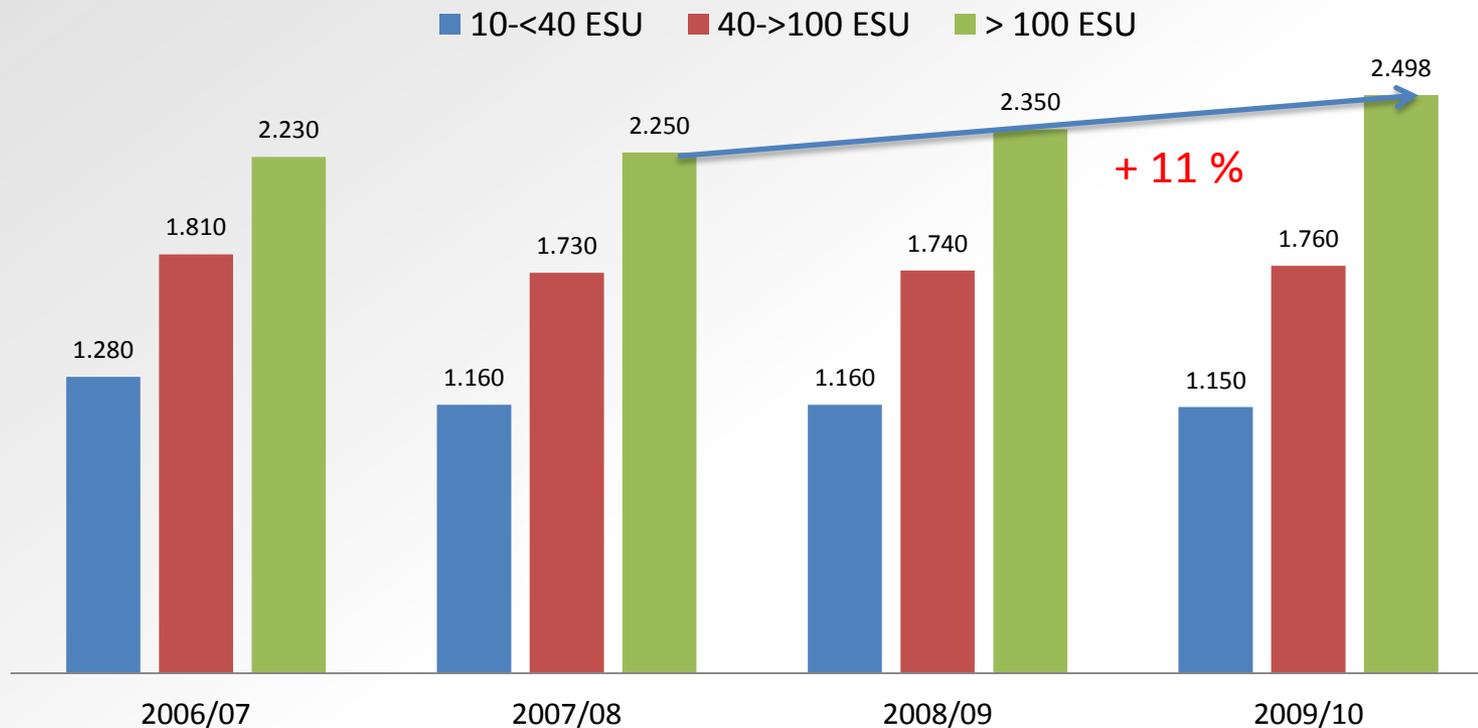
Farm net income per annual work unit in milk specialised farms (in euro)



Source: EU COM (2013) Dairy farms report, FADN-data

Increase of liabilities...

Liabilities in Euro/ha in milk specialised farms in Germany
(classified by European size units)

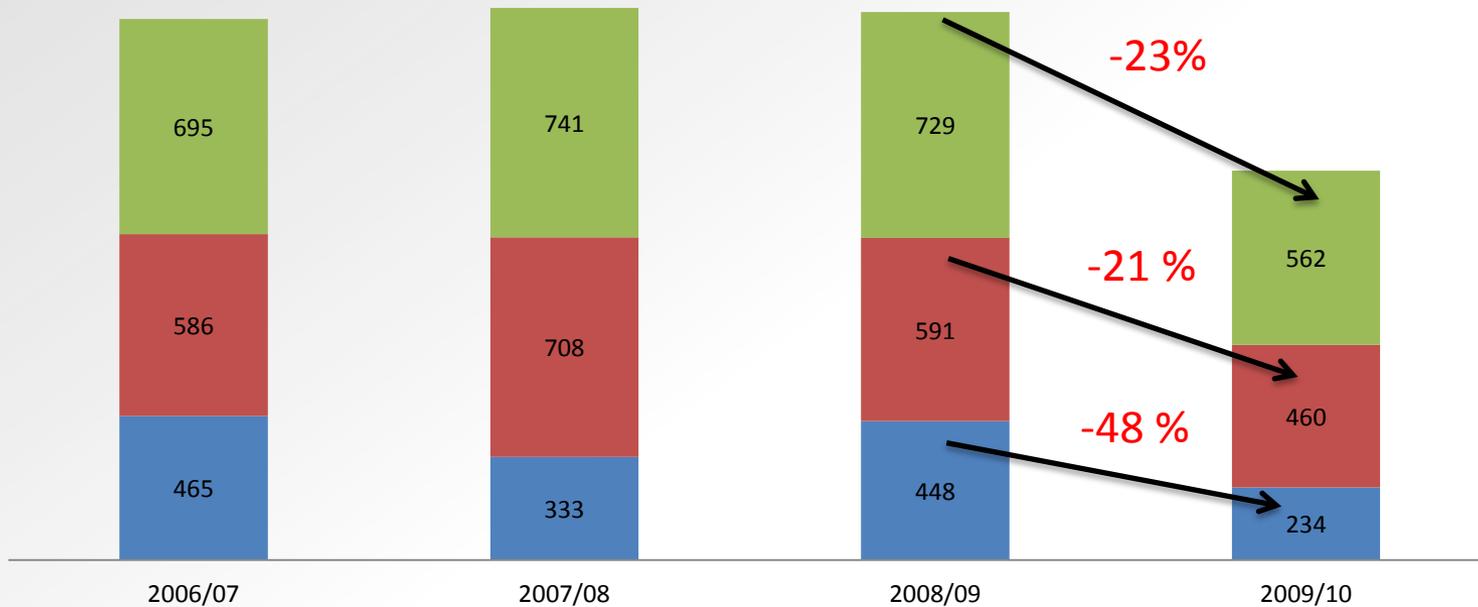


Source: FADN data

...and postponed investments

Investments in euro/ha in milk specialised farms in Germany

■ 10-<40 ESU ■ 40->100 ESU ■ > 100 ESU



Source: FADN data

Dramatic increase in farm exits from 2007 to 2009

- EU-27: One in three milk producers quit
 - EU-15: One in five milk producers quit
 - EU-10: Particularly strong decrease
- EU milk supply still secure in the future?

+ Expensive crisis management



Why we need new market instruments



First steps...

Milk package and safety net

Reports (EU-COM, EU Court of auditors, German competition authority)

- More competition for raw milk prices und therefore more negotiation power for dairy farmers necessary
- Milk package: good direction, but not sufficient

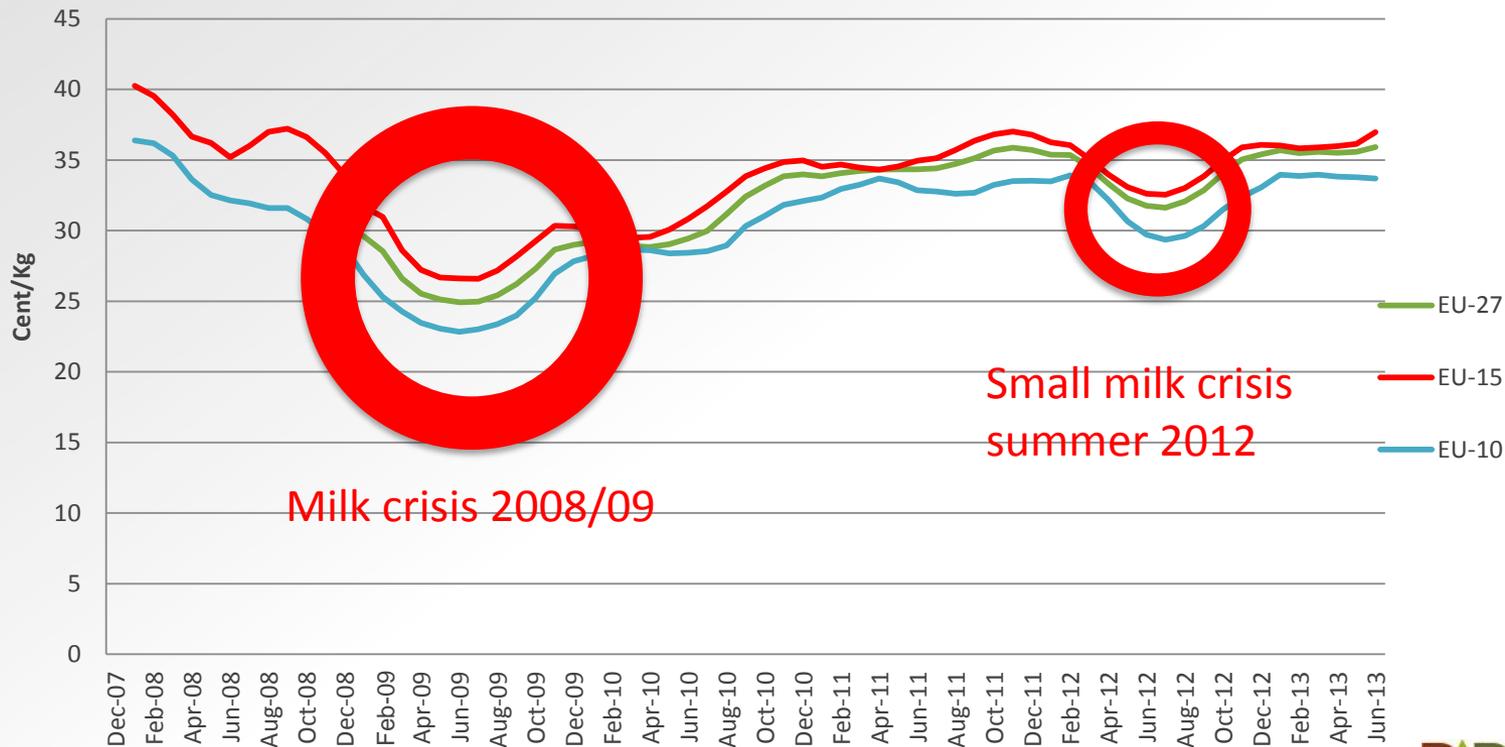
Safety net of CAP

- Intervention: price level too low + not tackling the source
- Direct payments: necessary, but no answer to volatile prices and not a suitable crisis instrument

...but new answers needed

Prices rise, but do not cover the cost of milk production

Development of farm gate milk price in the EU (real fat, ct/kg)

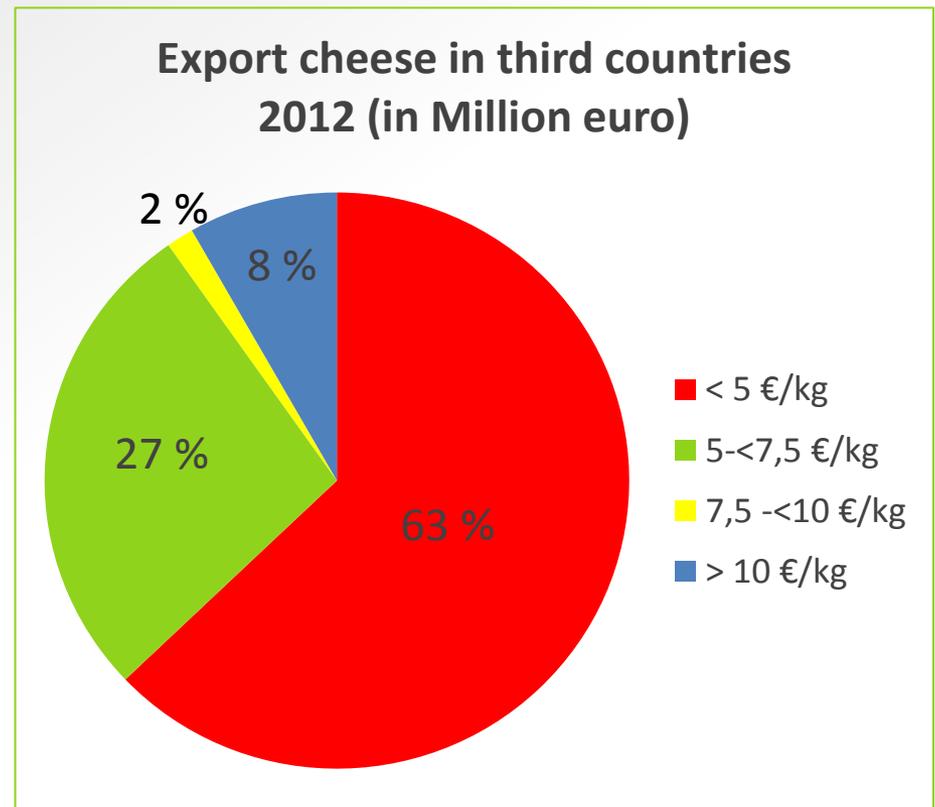


Source: Circa.eu Basic Dairy Statistic

Global milk market: some opportunities and a lot of risks

EU milk surplus increases risks

- Less opportunities in global markets than promised
- Global market with few participants and speculative/psychological influences
- Environmental and climate-related risks
- Risks related to international financial markets



Source: EU external trade data base, own calculations



Uncontrolled milk surplus



A challenge for the stability of EU markets and prices



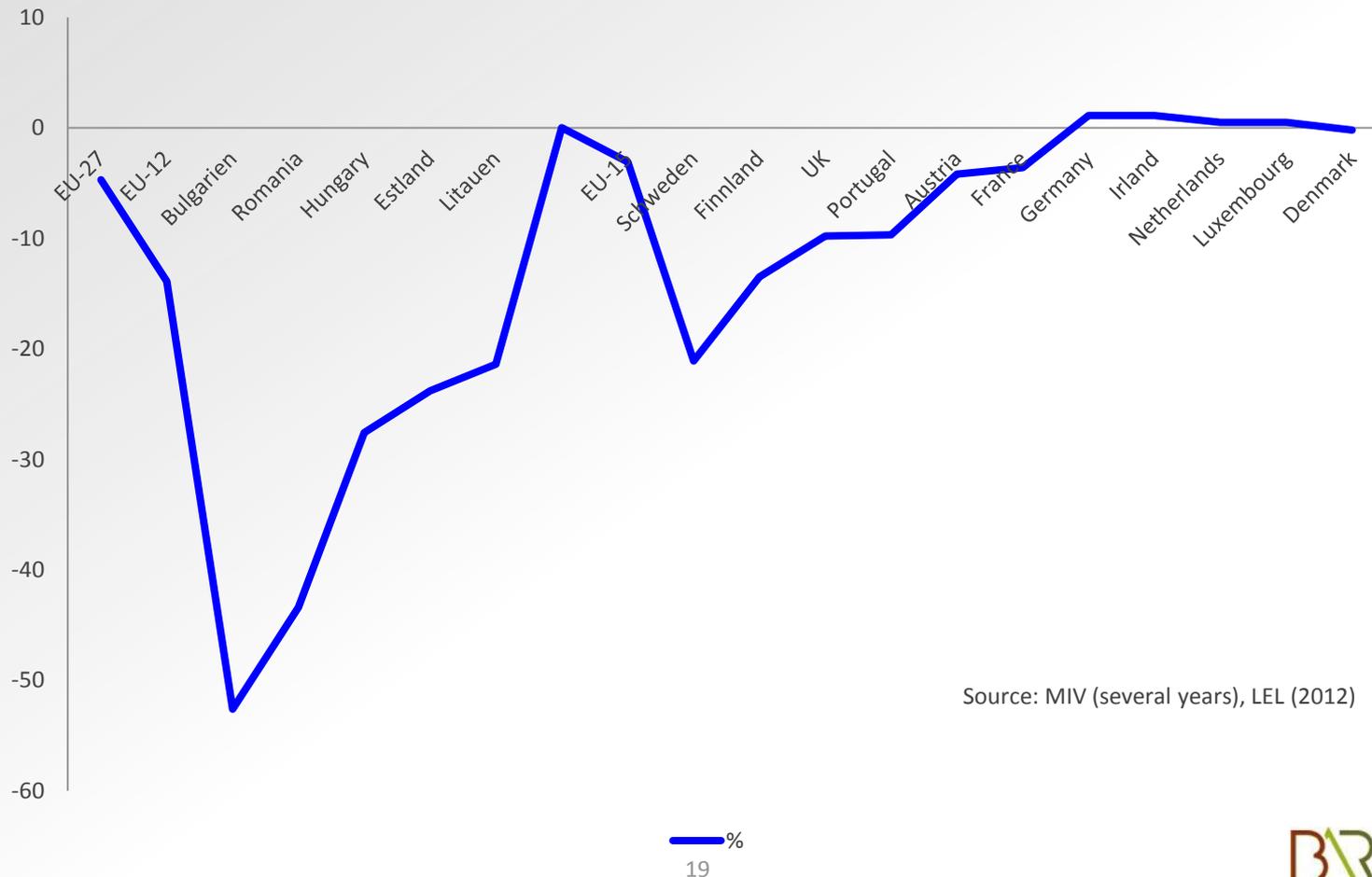
Following the example of Switzerland?

or

Striking a new path – as the USA are likely to do?

Unequal growth of milk production in EU-27

Over and under delivery of milk quota 2011/12 in % in EU-27



Source: MIV (several years), LEL (2012)

Growth limits reached



Limits to growth of production in milk regions almost reached

- Availability of land (biofuels and milk compete for land)
- Cows reaching their production limit
- EFSA 2009: Zero-grazing increases risks to animal welfare
- Society concerned about ethical questions

Who is going to milk the cows?



What is needed

Reliable and flexible framework

- Survey on milk supply and demand
 - Instrument for flexible milk market management
-
- ➔ to stabilise supply and demand in milk markets
 - ➔ to stabilise prices at a level covering cost of production
 - ➔ to strengthen the resilience of EU milk producers
 - ➔ to stabilise production of milk also in less favoured areas, mountain areas and Eastern Europe
 - ➔ to mitigate the risks resulting from global milk market influences

Scope of action

Realisation of Art. 39, Treaty on the functioning of the EU

- to stabilise markets
- to ensure a fair standard of living
- to ensure that supplies reach consumers at reasonable prices

Past experiences of scope of action

- The delivery boycott 2008 had a temporary stabilising impact on the milk price in Germany
- Reduction of 1 to 2 % of EU milk volume had a stabilising effect on EU milk markets during the milk crisis in 2009
- Comparable effect of scarcity of EU milk supply (535.000 tons) in 2012

EU policy measures have to balance the interests of **all** stakeholders



Solution: Monitoring Agency



Basic aims and requirements

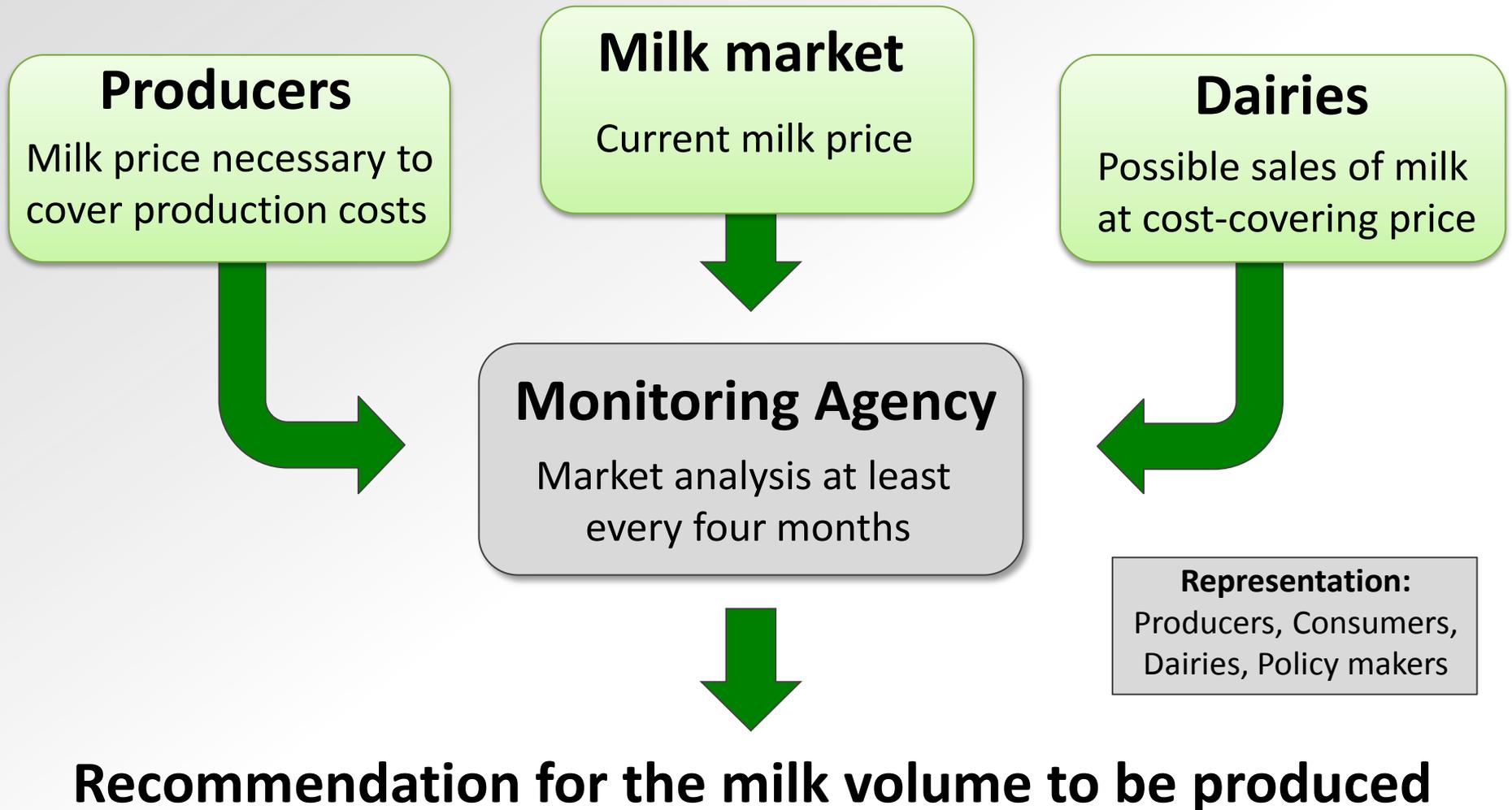
Aims

- Flexible adjustment of milk volume to demand to restore market equilibrium
- Stabilisation of milk prices to cover the average cost of milk production
- Ensure security of milk supply in the EU

Requirements

- The Monitoring Agency is a European agency/ institution
- Decisions are generally binding

Concept Monitoring Agency



Supply management in detail

Decision on the milk volume to be produced



Implementation by public administration

- Adjustment of base quantity
- Via existing administrative bodies



Implementation by producer organisations

- Adjustment of base quantity
- Compulsory membership for farmers
- Independent from dairy industry



Control loop/ body

Control of implementation at the level of individual farms and producer organisations

Penalties in case of non-compliance

Steering instruments

Increase/reduction of volume at farm and producer organisation level

Prerequisites: Base quantity and external trade protection

1

Reserve

- 3-5% of delivery rights for adjustment of the base quantity
- Additional delivery rights are limited in time

2

Voluntary production cuts against compensation

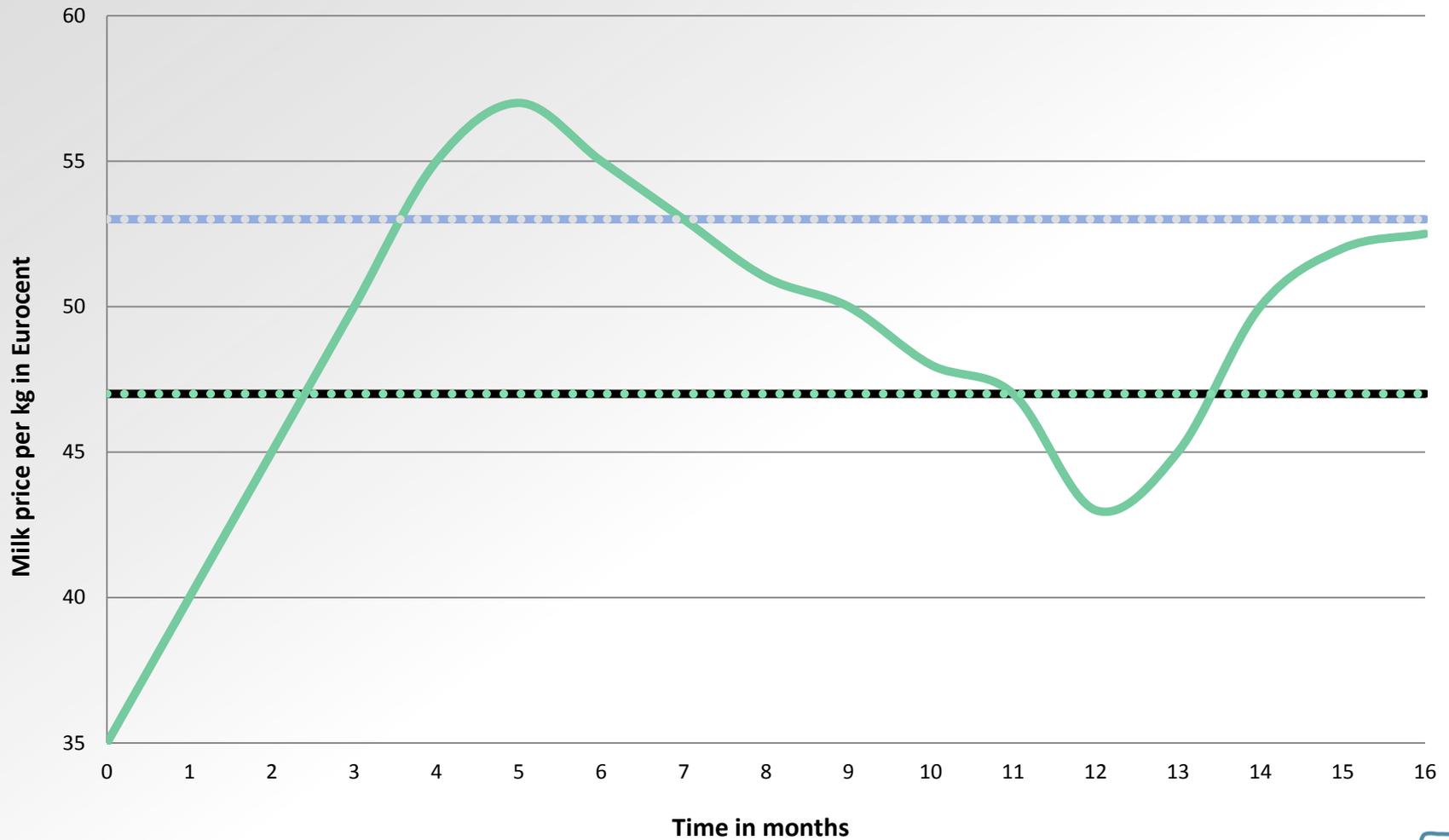
- Implementation through public tender
- Funding: through super levy and private market regulation fund

3

Strategic storage

- Crisis reserve, Balancing of natural variations in milk production volume
- Funding through own resources

Milk price corridor



Advantages of flexible milk supply management

**Security of supply and stable
consumer prices**

**Prevention instead of
reaction to a crisis**

**Secure income for
milk producers**

**Cost-neutral for public finances
/ no agricultural subsidies**

Thank you for your attention

