

FINAL MINUTES

Meeting of the Civil Dialogue Group Milk

26 February 2021

Chair: Ms. Anne Randles (CELCAA)

Organisations present: All Organisations were present

1. Approval of the agenda

2. Nature of the meeting

The meeting was non-public and held via videoconference

3. List of points discussed

3.1. Dairy Market

3.1.1 Latest market developments under the influence of covid19-restrictions and the end of the Brexit transition period

DG AGRI G3 – Krystian KECIEK

EU milk deliveries increased by +1.7% in 2020, setting a new record high. Over 145 million tonnes of milk delivered in 2020, which is 2.4 million tonnes more than in 2019. Estimated value of total milk production in 2020 was slightly lower than in 2019, but still higher than the 2016-2018 annual totals. IT, IE, PL and ES showed the strongest growth while DE and FR registered a modest increase. Only two Member States (AT, HR) registered a slight decline of milk collection in 2020.

Globally, milk production grew by 2.1% in US and +2.8% in Australia during 2020, whereas UK output remained at 2019 levels. Combined production of AUS, US, NZ, UK and EU was up by 1.7%. Impressive growth was registered in South America, in particular in Uruguay where production grew by 6% in 2020. Argentina, Russia and China also expanded their production.

In the EU, production of drinking milk was up 3.4% in 2020, a direct result of increased demand due to the pandemic. Cream output was the only product showing a decrease.

There is currently nothing in PSA stock.

Average milk price in EU was 35.3 c/kg at the end of 2020, 1.2% lower than in 2019 but 2.1% above 5 year's average.

Based on 2018 FADN basis and index, operating costs were up. Gross margins were lower in Q4 2020 than in the same period in 2018 and 2019.

Prices have been increasing since the beginning of 2021. EU butter prices are at the highest level since February 2020. Global demand for whey is strong and this is driving the higher price for whey.

Compared with global competitors, EU is price competitive for WMP and US for cheddar, butter and SMP. There are high domestic stocks of butter and cheese in the US. US exporters are also benefiting from a weaker dollar. Oil prices have almost recovered to pre-COVID levels, so oil-producing countries should have greater buying power.

2020 was a very good year for dairy trade from the EU. Nevertheless, EU butter exports slowed down at the end of 2020. EU exports of cheese increased to all destinations, except to US where exports were down 10% in 2020. EU exports of dairy in 2020 were worth approximately €14.4 billion (+3%). EU-UK trade flows (exports and imports) decreased in 2020, not just for dairy but also for other agri products. It's too early to assess the impact of the new trade agreement with the UK.

In terms of total import activity, China imported more butter and cheese in 2020 but slightly less SMP and WMP. Japan imported less cheese overall (-4%), although cheese imports from EU increased in 2020.

Intra-EU trade of dairy saw record highs in March 2020 when the lockdowns began. In April and May intra-EU trade was lower than in 2019. Implementing green lines for EU food trade improved this situation in later months of 2020. EU industry did not report significant disruption in their production of dairy due to the pandemic.

There are some concerns on the horizon – increasing animal feed costs and the Ho.Re.Ca. sector situation. Butter and cheese stocks in the US are high and output is increasing in the major exporting countries.

3.1.2 Short term and Medium term outlook DG AGRI C2 - Andrea CAPKOVICOVA

Short term: 2020 saw many accelerated trends for food – e-commerce, takeaway services etc. Retail sales were strong and helped to compensate for the loss of food service. Vaccination has started in the EU and worldwide. Personal savings were made by people unable to travel in 2020 – possibility to spend more in 2021? In terms of travel, leisure and business travel will be the last to come back. Currency fluctuations will also play a role in spending power and export performance.

GDP growth will return to positive figures in 2021 (+3.7% in EU, +5.2% globally, +8% growth anticipated in China). As mentioned previously, oil prices are up and feed costs are increasing as well. Growing Chinese demand for soy feed is helping to keep prices up.

EU dairy herd drop in numbers is above 1% - this is stronger than what was previously anticipated. Growth in milk production will come from increases in yield. In the US, the dairy herd is at a 25-year high.

Demand drivers this year will include the return of food service in the EU and the US. In the US, the food box programme (if approved), could support the sector. In China,

demand will remain strong – Chinese processing requirements will increase to process the production of their increased herd, as well as products imported (notably milk powders).

Medium term: increased focus on all three sustainability pillars in the EU and on sustainability along the chain. There will be more of an emphasis on local and regional supply chain – should boost direct sales of dairy as well. Alternative milk production streams will grow (organic, GM free etc.)

30% of the additional milk in the EU will go into cheese production. Fresh Dairy Product use will decline, but not to the extent in the past (because the drinking milk decline has slowed down). In terms of powders, SMP and Whey production will increase the most.

EU is expected to remain the largest dairy exporter (about one third of total dairy trade and almost half of total global cheese trade). Most of the growth in the decade to come will be from exports of cheese, SMP and whey. US will gain more market shares while NZ presence will decline. The butter and SMP price gap will narrow. The cheese and whey stream will be more strongly valorized.

Prices have been very stable since last summer and have firmed recently. The EU-UK deal, the start of vaccines and the change of administration in the US have boosted confidence amongst market actors. The dairy trade and the dairy sector in general have shown great resilience in 2020 – global demand has been much less affected than anticipated by COVID.

Trade is however being challenged by logistical issues – lack of containers and congestions at ports. The COVID measures in China, barriers to UK trade and the aircraft dispute with the US are also at play. On the other hand, demand has been solid and milk flow has been generally moderate. Supply and demand are quite in balance. Policy choices will have a big influence on trade in the years ahead, for example the Farm to Fork strategy in the EU.

On the issue of non-conventional (alternative) milks (eg organic), the sector needs to be sure the market is there, given the growing consumer awareness and understanding of the sustainability practices within dairy. Countering this is the view that increased EU milk production is not sustainable.

Cost prices and competitiveness need to be considered in the future. NZ production is contracting – this is an opportunity for the EU. Not every market was good in 2020 – Hong Kong, some African markets etc.

In terms of future renewal, there are no specific variables in the report on future structure of dairy farms and generational renewal. Farms are getting bigger and more professional so we can assume that there will be less farmers and more specialist dairy farm, notwithstanding the structural variability of the dairy industry in the EU27. Currently though, farm viability is compromised due to high costs.

3.1.3 Update on production costs at profitability at farm level
DG AGRI C.3 – Piotr CZARNOTA

Findings are based on various sources, mostly the FADN. Model focuses only on milk specialised farms. Structure of farms across the EU is very diverse, so average needs to be interpreted carefully. Comparing 2008 with 2018, milk production almost doubled on average.

Feed represents 51% of total costs. 70% of feed costs are covered by compound feed.

Milk price was stable in 2019 and 2020 – the main impact on margins came from changes in production costs. Total revenues from milk do not cover costs of production when (unpaid) family labour is taken into account.

Great variations in gross margin and incomes between different Member States. We can expect that margins will deteriorate further in 2020, resulting in a drop in incomes.

The report has been prepared and is awaiting publication. Data will be available on the agri food data portal.

3.2. Dairy Policy

3.2.1 Farm to Fork strategy implementation

3.2.1.1 Contingency plan for food supply and food security

DG AGRI G1 – Fabien SANTINI

Contingency plan is a F2F action. It is scheduled as a communication in Q4 of 2021. Timing is short so there is no formal impact assessment, but a very active consultation on this is currently ongoing with stakeholders.

Context is influenced by the pandemic. F2F was adopted in April 2020, during the first acute phase of the pandemic. The food security dimension of the F2F strategy was reinforced because of this situation. Despite the challenges, the food supply chain proved resilient during 2020. During the early days of the COVID situation, there were some unilateral and unco-ordinated actions that posed problems. The intention is to draw lessons from COVID and to put in place a better EU food crisis response mechanism, included agreed procedures and principles to follow in the event of a crisis. The EU's connection with international partners and international organisations is key. Transparent communications with stakeholders and general public is vital. Accessibility and affordability of food is also important.

Stakeholders' responses to the roadmap are generally consistent with the Commission's evaluation of the situation.

A targeted questionnaire to all stakeholders will be published in all EU languages in the days to come (1 March). It will be open for response for 2 months. There will be a workshop organised with the JRC in May.

3.2.1.2 Code of Conduct for Responsible Business and Marketing Practices (discussion)

Point was not discussed during the meeting

3.2.1.3 Revision of the food information to consumers regulation are regards front of pack nutrition labelling, origin labelling and date marking and setting of nutrient profiles (discussion) *Point was not discussed during the meeting*

Comments (on F2F generally):

Insofar COVID was managed at national level, the functioning of the single market was challenged. The single market needs to be safeguarded. Working with a holistic vision (looking at entire chain) is important – to ensure access to food for citizens. The food supply chain, including food industry and supermarkets have been deemed essential activities– this provides reassurance to EU citizens. A European distribution network, providing everyday food to people across the EU, is key.

The USDA study on F2F is based on assumptions that can be challenged – this cannot be considered as an impact assessment.

The contingency plan is foreseen as being cross-sectoral. COVID triggered similar thinking in other sectors – with a view to be better prepared *ex ante*.

3.2.2 CAP reform trilogues – state of play DG AGRI G.3 – Brigitte MISONNE

The third CMO trilogue with the Council and European Parliament will take place next week. In between trilogues there are a number of technical meetings, to discuss technical matters and details that do not require political backing. The Commission CAP proposal was modest – very few changes for the dairy sector, focusing more on simplification of GIs and modernisation of wine sector. The Council has largely followed COM's approach.

The European Parliament position is much wider in terms of proposed changes. It wishes to see intervention open throughout the year, the identity of participants in public intervention published, as well as the identity of import licence holders and new EU standards on imported products. The European Parliament is in favour of new safeguard measures in the CMO Regulation. The Parliament is proposing an early warning system – using a market observatory covering all sectors. Marketing standards are also being considered: consolidation of milk designations and clarification of the legal basis. The functioning of producer organisations and interbranch organisations is also being discussed. The European Parliament position includes a permanent legal basis for a voluntary production reduction scheme for all agricultural sectors, but also a levy scheme if production reduction on a voluntary basis is not enough (essentially a temporary quota scheme).

Timeline – the ambitious goal is for all three texts of the CAP reform to be completed by May.

In order to get an agreement by May, there needs to be an approximation of the institutions' positions. The Commission's role is to try and help Council and EP to reach agreement.

3.2.3 Update on the EU school scheme DG AGRI G.3 – Giulia MEDICO

- Highlights from the country monitoring reports on school year 2019/2020. The impact of the Covid-19 pandemic can be seen – schools closed everywhere except Sweden. The number of participating children did not change (around 19 million – as the scheme started in September 2019). Due to school closures as from March, 20% less school milk was distributed. Expenditure for school milk was significantly lower. €56 million were spent, compared with more than €70 million

in the school year 2018/19. Member States that top up the EU budget with their own national resources reported that they did not use their national resources because of school closures. Some products that were bought but not distributed to school children were donated.

- Member States' requests for EU aid for the next school year have been received. The Commission decision fixing the EU budget is scheduled for adoption on 15 March. The EU budget is now less because of Brexit.
- Review of the EU school scheme as part of the F2F strategy will take place in 2023 – preparation of this review has started. A combined roadmap for the evaluation and inception impact assessment will be published for stakeholders' feedback in May/June.

While there is general support for the scheme from within the sector, there is minority stakeholder support for a revision of the scheme to promote plant protein. The purpose of the scheme was also questioned in a situation where output was reduced and consumption promoted.

3.2.4 Update on EU promotion policy DG AGRI B.1 - Varvara BEKTASIADOU

The deadline to submit proposals is 11 May. Decisions on the selection of programmes will be made in the autumn. The annual work programme (AWP) looked particularly at coherence with the objectives of the Green Deal. The budget for 2021 is €182.9 million (with €9.5 million set aside for COM own initiatives). A review of the promotion policy is upcoming (which was announced as part of the F2F communication). The evaluation found that the policy is effective and is relevant and has demonstrated that it delivers clear added value. In terms of improvement, there is room for more coherence with other EU policies and greater use could be made of 'Enjoy, it's from Europe!'

There is a discussion that the budget set aside for organic products was very high.

In the absence of a legal definition of 'sustainable agriculture', in the call for proposals the FAO definition is used. The promotion policy of the EU is used to support all agricultural sectors, should create added value for agri-food products in the EU and strengthen the awareness of the environmental and social sustainability of EU food production. The Review of the policy will examine any necessary changes or adaptations needed for the promotion policy in the future.

3.3. Trade

3.3.1 Key points of the EU-UK Trade and Cooperation Agreement, first experiences and next steps

DG AGRI A.1 – Koen MONDELAERS

The UK is the most important trading partner in agrifood - €40 billion of exports, €16 billion of imports (€24 billion surplus). Frictionless trade is over – there is no obligation in the agreement to reduce SPS checks. Nevertheless, there is a high level of market access. It is the only trade agreement where there are zero tariffs and zero quotas for dairy.

5% of EU production of milk goes to the UK in exports.

Stringent SPS rules are upheld in the EU – the starting point is the same standards but there is no certainty about this continuing in the future. EU is treated as a single entity.

GI protection is not extended to new GIs but this will be revisited in the future. The UK's organic regime is recognised but will be reassessed when the EU updates its organics rules in 2022. Agricultural subsidies are carved out from the subsidies provisions of the deal – means that CAP is safe in the future and there are non-regression clauses in the fields of labour, social, climate and environment.

Trade from UK is down since the start of 2021 and this is partly due to prior year stockpiling and Covid, but also to the choice of the UK to go for a FTA with the EU and the consequent new administrative requirements, SPS rules and new rules of origin, linked to the implementation of the agreement. The most significantly affected group is SMEs that are not used to these procedures.

The fact that an agreement was reached before the end of 2020 was welcomed and while the sector was blindsided by the rules of origin, the main trading issues arising relate to SPS - the rules have not been adapted to reflect the close geographical proximity of the EU's newest and largest trading partner.

It is expected that additional administrative requirements will add €200 a tonne to the cost of doing business with the UK. It is highly damaging to the integrated supply chains. For the arrangements for Northern Ireland to succeed, the Commission needs to provide recognition for all Ireland products – i.e. qualifying for concessions under existing and future EU FTAs and mixed island of Ireland milk needs to be included in sCMO measures (public intervention, private storage etc.)

The deal needs to be approved and translated in all languages – deadline for EU to do this extended until end of April.

3.3.2 EU trade policy review

DG TRADE D.3 – Alberto D'AVINO

Trade policy review communication was published last week. Process has been quite long – initiative launched in June 2020. Adoption of the communication is the end of a long and inclusive process, with over 400 contributions received.

A series of expectations emerged on what trade policy should deliver. Both economically and geopolitically, we are at an interesting point in time.

Since 2015, (when most trade policy communication was published) we have seen the rise of China, changing the global level playing field. There is less international co-operation, situation was exacerbated by the COVID pandemic.

'Open strategic autonomy' is the slogan of the communication – basically meaning that the EU is open to the world, while being more assertive in pursuing its interests and in enforcing its rights. Sustainability (and support of the Green Deal) should be a central pillar in all of this and the EU wants to support this green vision at global level. The reform of the WTO is the first priority of the EU in the years to come. Enhancing dialogue on an international basis will be a priority (in particular with the US), as well as deepening and widening the trade relationship with African partners and countries in the neighbourhood. Enforcement of trade agreements and ensuring a level playing field are also big topics in the communication.

3.3.3 Trade relationship with the US under the new administration

DG AGRI A.3 – Francesco Meggiolaro

Agricultural producers have been hit by the Airbus tariffs since 2019. Additional products have been included in this since January – done just before President Trump left

office which may have exceeded the WTO ruling. Since November 2020, the EU is also imposing tariffs (Boeing case). The EU has been submitting proposals trying to find a compromise solution. The important aspect is to find common ground on a number of fronts with the Biden administration and the positions are a lot closer when compared with the Trump administration.

3.3.4 State of play as regards approval of concluded agreements (Mexico, Mercosur)

Mercosur: Legal scrubbing has been ongoing for some time. Issues related to GIs need to be ironed out before the next stage of the process can begin (documents for institutions). There is no indication yet of when the next stage can begin.

Mexico: last formal steps of revision – then it will be submitted for translation. After that, it will be presented to the Council and European Parliament. It is still not clear whether it will be a ‘split’ agreement (trade agreement treated separately from the political agreement).

3.4. AOB

No AOB points

4. Conclusions/recommendations/opinions

There are many topics that will have to be closely monitored in the weeks and months to come. Sustainability and the connection of other initiatives with the Green Deal will be a very relevant aspect. In addition to the trade dossiers, Farm to Fork and the CAP discussions will continue to drive the dairy agenda.

5. Next steps

It is highly likely that many of the policy topics covered in today’s meeting will continue to be relevant in future meetings.

6. Next meeting

Next meeting is scheduled for 22 October 2021

7. List of participants - Annex

Disclaimer

"The opinions expressed in this report represent the point of view of the meeting participants from agriculturally related NGOs at community level. These opinions cannot, under any circumstances, be attributed to the European Commission. Neither the European Commission nor any person acting on behalf of the Commission is responsible for the use which might be made of the here above information."

List of participants– Minutes

**Civil Dialogue Group Milk
26 February 2021**

MEMBER ORGANISATION	NUMBER OF PERSONS
EuroCommerce	1
Eurogroup for Animals	--
European agri-cooperatives (COGECA)	8
European Coordination Via Campesina (ECVC)	4
European Council of Young farmers (CEJA)	3
European Environmental Bureau (EEB)	1
European farmers (COPA)	10
European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT)	2
European Liaison Committee for Agriculture and agri-food trade (CELCAA)	6
European Milk Board (EMB)	2
Farmhouse and Artisan Cheese and dairy producers' European network (FACEnetwork)	1
FoodDrinkEurope (FoodDrinkEurope)	8
International Federation of Organic Agriculture Movements EU Regional Group (IFOAM EU Group)	1
TOTAL : 47	