

Brussels,
21/11/2018

FINAL MINUTES

Meeting of the Civil Dialogue Group “Milk”

Date: 20/11/2018

Chair: Mr Michel Nalet

Organisations present: All Organisations were present, except EMB.

1. Approval of the agenda (and of the minutes of previous meeting¹)

The experts approved the agenda and the minutes of the previous meeting.

2. Election of the chairmanship of the Civil Dialogue Group on Milk

3. Nature of the meeting

The meeting was non-public.

4. List of points discussed [Name of each point, one by one]

- **Milk market situation and short- and medium-term outlook**
- **SMP intervention stocks management: state of play and plans for 2019**
- **Presentation by the EU COM of the legislative proposals on the CAP post 2020 with a focus on the provisions relevant to the dairy sector**
- **Protection of Dairy Terms – state of play (EDA presentation)**
- **Trade:**
 - USMCA (US, Mexico, Canada) agreement – information on class VII, TRQ management for cheeses, GI protection**
- **Brexit – state of play (including on TRQ management)**
- **Follow-up on unfair trading practices (UTP) (to be confirmed)**
- **The Directive on single use plastics and its impact on the dairy sector - presentation by DG environment and exchange of views (to be confirmed)**
- **AOB & close of the meeting**

¹ If not adopted by written procedure (CIRCABC)

- **Milk market situation and short- and medium-term outlook**

The European Commission representative gave a presentation on the current market situation:

- EU Milk collection has increased by 1.3% in January-September 2018.
- By August 2018, SMP production had decreased 0.4%
- Half of the SMP stocks have been sold
- Milk price has increased since May. In September it was 5% lower than last year but 2.6% higher than the average of las 5 years.
- SMP prices have increased by 20% since April, but are still below the intervention level. Butter prices have decreased in last month but are still high and well above historical references. WMP and cheese prices have increased so far in 2018.
- New Zealand is the most competitive world exporter for butter. EU is the most competitive for SMP.
- EU butter exports by September had decreased by 11%. SMP exports grow by 1%, after a substantial increase in September.
- Australian production is down 3.9%, the September production decreased once again 3.3% due to drought. In New Zealand, production increased by 6% in September. US has seen an increase by 1.1% in its production. Combined world production growth is relatively stable on a monthly basis.

Eucolait underlined that on the demand side the situation is rather positive. There are no figures for China since March due to the trade war with US. Combined exports to China are on a rather decreasing trend in the past months but we should not worry too much as Chinese demand for dairy is expected to remain solid. If the tensions with US continue, we might however face reduced imports on long term as a result of declining economic growth.

Copa underlined that price is an element which is important at all levels and some fine tuning would be needed when we speak about competitiveness. This also links to production costs and asked what the operation costs are composed of. This have been on an upward trend as energy cost has been increasing. Drought and its impact on forage availability and price has been underlined.

EDA underlined that the market is rather stable and agreed with the EC assessment. EU production has been affected by drought. Cheese is very stable. Other products are more fluctuating. Butter prices are not as high but will most probably remain stable. EU had a rather good export performance for SMP. New Zealand started with very good production, although drought has also been present there but to a less extent. Chinese relation with US will impact trade.

EEB underlined that overproduction creates a pressure on prices. The increase in production is incompatible with climate change objectives. We need to decrease production, not encourage it in order to have a fair price.

ECVC underlined that the release of stocks on the market impacts the price paid to the producer. Farmers have slaughtered animals in order to see increases in prices but these are not possible with the stocks being put back on the market

The EC representative underlined that SMP competitiveness comes from price, being a commodity product (in opposition, for example, to quality cheeses). The operational costs used to calculate the margin index are those from FADN, namely feed, machinery, energy among others. In quarter 3, there has been a 9% increase in operational costs while milk price has increased by 4.5%. When it comes to production, the market dictates what should be produced. The increase by 1.3% of milk collection in the EU is sustainable and in line with demand growth. SMP stocks are being disposed of without creating any disturbance on the market. It was recalled that SMP represents less than 6% of milk use in the EU and butter prices are historically high. In parallel with the release of half of the stocks (since April), milk prices have increased by some 10%, therefore the argument is not valid. It was once again recalled that the chart on operating costs and margins represents indexes and not absolute values.

Copa asked for more information on the exports to Canada.

EDA is not satisfied with the execution of the Canadian agreement and asks the EU Commission to re-discuss this issue with the CAN authorities. This becomes an even more urgent matter in the light of the USMCA where the 'errors' of the CETA in this respect have been avoided, so that US cheese will have huge advantages over EU cheese in CAN.

Eucolait reiterated that the CETA cheese quota administration method is not satisfactory. While Canadian cheese manufacturers have little incentive to use the quota, on the retail/distribution side of the quota there are too many applicants for licences, resulting in too small volumes to make imports worthwhile. We should wait for the end of the year to see the final use rates for a better assessment of the situation.

The Chairman concluded with the need to address the issue of production costs and have an in-depth explanation on what is included in these costs within a future meeting.

The EC representative gave a presentation on the short-term and medium term prospects for the dairy sector:

- There has been an increased number of slaughterings due to drought. The high number of heifers shows that there will be no replacements
- Milk collection will be generally up for main milk producing countries, except maybe for France. The level of fat is below last year but the level of protein is slightly up.
- On medium term, there will be an increase in population and income.
- India will become the first world producer of milk but it is not present on the export market.
- Africa is increasing its production but this will not be enough to meet the demand.
- World trade will be 1.4% up. EU and New Zealand will have a 30% share of world trade. China will still be the 1st importer.
- EU cheese consumption will increase by 1.3 kg per capita. Milk consumption will decrease by 1.2 million t (more consumption of plant-based drinks), yogurt

consumption will increase. There will be an increase in organic consumption. Demand for products will lower environmental footprint.

- milk collection will reach 182 million t but will be subject to environmental constraints. A small decline in the dairy herd will take place.
- +4 million t of milk equivalent in 12 years, which will be channelled into cheese.
- More protein will be used for fat filled powders.
- The gap between SMP and butter prices will remain

EEB underlined that environmental problems would not be able to be tackled if we do not decrease the herd. The intensification of the use of grasslands is not compatible with the environmental objectives. The issue of dairy calves has been raised. Underlined the issue of cages for 8 weeks old calves.

ECVC asked about the phosphate issue and also about the quality of the exported powder.

Copa asked if the Commission has done a silage inventory. Rabobank has come out with worrying predictions. Asked if vegetable fats are part of Commission's assessment.

Eucolait mentioned that Western Africa is the main region where fat filled powder is exported as production in that area is not able to keep up with the demand growth. Duties are very low in most of those countries. Eucolait believes that that the US will have a larger share than 15% of the global market.

The EC representative underlined that there is no silage inventory. Data on vegetable oils/fats is rather scarce.

- **SMP intervention stocks management: state of play and plans for 2019**

The EC representative underlined that half of the stocks have been released. There has been an increase in the frequency of tenders (twice per month). The EC will assess the market and release the stocks according to the situation, with the agreement and cooperation of Member States. Regarding public intervention in 2019, the Council adopted once again a regulation setting to zero the ceiling for buying in at fixed price. Therefore, buying in will be operated under a tendering procedure from March to September 2019.. Some tenders were submitted this year but were rejected by the EC and Member States as market conditions did not justify any further buying in (notably in the light of remunerating milk prices and the persisting gap between fat and protein prices).

EDA underlined their satisfaction with the way the EC was managing the stocks.

ECVC asked if no public intervention is available, what other tools will be available.

Copa asked if member states have access to the identity of companies selling to public intervention.

The EC representative replied that the identity of the sellers is with the Member States, possibly subject to data protection law. The decision on fixing minimum selling prices is taken in the most objective manner, based on volumes and prices, not on the identity of the seller. The EC does not trace the end use of the powder once it is sold, the tendering is open for all uses. With regards to the claims of intervention product being exported to

Africa, trade figures show that SMP exports to Africa increased last year when there were virtually no sales from intervention, and in 2018 they are decreasing substantially while some 190 000 tonnes have been released from intervention. This shows that there is no direct parallelism between the release of stocks and exports. The EC clarified that public intervention would still run in 2019 but only through the tendering procedure (which means that buying-in into public intervention will be done only if it is justified).

- **Presentation by the EU COM of the legislative proposals on the CAP post 2020 with a focus on the provisions relevant to the dairy sector**

The EC representative gave a presentation:

- 5 guiding principles, 3 Regulations and 9 specific objectives
- direct payments will be composed of a basic income support for sustainability, complementary redistributive income support for sustainability, eco-schemes, complementary income support for young farmers. The only support which will be voluntary will be coupled support. Conditionality will apply to all.
- Rural Development programmes are gathered in 8 measures, with minimum 30% of the money to be allocated to environmental and climate change objectives.
- On the CMO, there are no big changes for the milk sector. Sectoral interventions are included in the CAP Strategic Plan Regulation, using the model existing in the fruit and vegetables sector.

Eucolait asked how the crisis reserve will be formed and if the 400 million euros will be enough for market measures and if the money would be also used for the sales of public intervention stocks.

EEB underlined the need for the CAP to be focused on objectives and improvement of the situation on the ground. Dairy cows and calves welfare are important and there is a need for measurable indicators.

ECVC underlined that the new CAP favours the concentration of farmers and increasing the size of farms. A liberal policy would not work in the rural environment. More focus should be on local production and GIs. A political approach is needed to manage crisis. Questioned the measures against climate change.

Cogeca underlined the fact that it is farmer's interest to keep animals in good conditions as happy animals are productive animals.

Copa asked when transitional measures will be introduced and if the sectoral interventions also apply to IBOs. Asked if crisis has been defined.

CEJA mentioned the need to invest in countryside and the need for technology. The CAP needs to be there to ensure that long-term investments can continue.

The EC representative underlined that future sectoral interventions would be based on POs recognized by MS and dedicating own financial resources to conduct an operational programme. The future agricultural reserve will be used to finance public intervention and private storage in addition to exceptional measures. Today, the crisis reserve is constituted each year by a cut in direct payments. In future, the 420 million € available in 2020 will be maintained for next period, and if at the end of 2021, they are not be used, they will be rolled over to the next year. The EC would need to come up with an economic assessment about the amount necessary for the upcoming year. There is no

overall ceiling. The EC is currently losing money when selling out of public intervention. If the EC sells at a higher price, it will go to the general budget. The EC has proposed a number of indicators to assess the performance of the future CAP and others may be added through delegated acts. More focus is put in the future CAP on animal welfare, local production, organic production. The sectoral interventions are not available for IBOs. The COM has put a particular focus on young farmers; concrete actions will depend on MS. The Commission proposal does not contain a definition of what a crisis is.

- **Protection of Dairy Terms – state of play (EDA presentation)**

Alexander Anton, Secretary General of EDA, gave a presentation on the EU scheme for the protection of dairy terms, underlining the lack in national enforcement in basically all 28 EU MS. He underlined the joint EDA, Eucolait and Copa-Cogeca press release of March 2018 on the importance of the protection of dairy terms. EDA has drafted 11-page guidelines which are important to be sent to local control authorities to identify local breaches. EDA asks to put these on Circa and share them with control authorities by the experts of the group (see annex of these minutes).

Cogeca added the problems with butter, cheeses, soya milk. Prosecutions would be necessary.

- **Follow-up on unfair trading practices (UTP) (to be confirmed)**

There has been a vote in the EP on the Paolo de Castro's report. Trilogues now are taking place.

- **Trade:**

- USMCA (US, Mexico, Canada) agreement – information on class VII, TRQ management for cheeses, GI protection**

The EC representative gave a presentation on the Canadian milk class 7 introduced in 2016-17 and the way it is expected to change following the USMCA agreement. Class 7 aimed mainly at replacing imported products (dairy proteins), especially from US. According to the agreement between US and Canada, class 7 will be removed but will be replaced by another class. In the agreement, Canada commits that the price will not be lower than the US price (once deducted processing margins and exchange rates). Limiting exports above a certain ceiling (by a levy) is another element. Canadian exports of SMP exploded in 2017 (but still the quantity is low compared to the EU), to similar markets as the EU is exporting to.

Eucolait underlined the structural problems in Canada, with the oversupply of SMP. The new class would give them the possibility to address that problem.

EDA raised the question of taking action against this mechanism of cross-subsidies.

The EC representative gave a presentation on the CETA implementation. Since September, there has been an acceleration of pace when it comes to filling in the TRQ (63%). In a meeting on agriculture, the Canadian side assured the EU that the quota will be filled by the end of the year. Canada wants the creation of 4 sub-quotas which goes

against the principles of the agreement. The COM explicitly asked for a review of the system. On USCMA, there is no final text. A document is being drafted. There are 14 new TRQs. Quantities are set for 6 years, plus an increase in the next 13 years by 1%. 7000 t are industrial cheeses. Quota would not be allocated to a producer group, commit to transparency. If there is a formal review of the TRQs, some of these provisions would need to be applied to the EU as well.

EDA very much welcomed the statement that the EU reserves its right of revision. We should act now, otherwise, our competitors (see USMCA) will be in a better position to export cheese. In the implementation of the agreement, there is a need for a constant supply of cheeses throughout the year. Out of quota tariffs are at 250%. What prospects are there for a review in the coming year?

Eucolait asked whether the USMCA agreement had addressed the conflict Mexico-US (US steel and aluminium tariffs and the Mexican counter measures, including on US cheese).

ECVC underlined that the Canadian model is more sustainable than the US model.

The EC representative replied that the review is not possible for 2019 but given that in 2019, there will be a midterm review, this could be addressed then. The Mexican government will change and probably an agreement with US will be more likely. For EU-Mexico, there have been important concessions on dairy from the Mexican side. The task of the EC is to facilitate our exports without prejudice to the Canadian policy towards their farmers.

- **Brexit – state of play (including on TRQ management)**

The EC representative gave a state of play. The withdrawal agreement has been endorsed at negotiators level. This also includes a protocol on IE and Northern Ireland to avoid a hard border. A political declaration has been drafted to outline how EU and UK are going to work once UK will become a third country. Both parties agree to keep the trading relation as close as possible. During the transitional period, the EU laws will continue to apply as if UK were part of the EU apart from decision making and governance. This will be in place until 2020, and can be extended once but it is not defined by how long.

Next steps: extraordinary Council 25 November. EP would need to give its consent but the Council has the final word. Afterwards, there will be the ratification by the UK side. The EC published a document on preparedness for a “no deal” scenario. Once the basic act is agreed upon, there will be an implementing act. On the apportionment of the TRQs, the EC adopted a mandate to open negotiations with WTO members in parallel with a proposal to the Council and EP on the apportionment of TRQs between UK and the EU. In July, the EC notified the revised figures and WTO members had 90 days to comment on these figures until 22nd October. There will be a meeting with WTO members to go through the comments. On the proposal, the Ec hopes that one triologue will be sufficient to reach an agreement between the co-legislators, and possible publication in January.

EDA asked if there is a possibility to add something in trialogues or it is just accepting the withdrawal agreement.

Copa asked if it is clear to customs authorities that there is no need for paperwork. In the Netherlands, the foreign affairs ministry is working on a legislation stating that emergency situation will be in place starting with April (preparation for a crisis

situation). The EU should not enter in any other agreement without knowing what Brexit means.

Eucolait asked if the WTO apportionment could be done without waiting for the negotiations in Geneva. Asked what is meant by status quo.

ECVC asked if the UK parliament will react differently, what would be the scenario.

EDA underlined the big impact a no deal will have on dairy, showcasing the examples of butter and cheese, and that operators would need to be aware. Asked if within the next meeting it is possible for the COM to present the measures it will take if there is no deal. This is extremely important considering the significant quantities involved.

The EC representative clarified that the trialogues are on the TRQ apportionment not on the withdrawal agreement. Acknowledged the need to communicate with the national authorities but this may be done only once there is more clarity on the way forward. Underlined that it is feasible under WTO art. 28 to move forward unilaterally. This will enter into force when EU rules will no longer apply to UK. UK parliament decision is difficult to be predicted. Not all MS have taken measures as the Netherlands, but MS are closely following the discussions. Status quo means continuing the same treatment as UK were an EU MS but with no role in governance and decision making in case there is a deal.

The Chair concluded that given the importance of the UK market for our dairy products (even more important than Russia), it would be good to have a presentation on how to handle a “no deal” scenario.

- **The Directive on single use plastics and its impact on the dairy sector - presentation by DG environment and exchange of views (to be confirmed)**

This point was not addressed.

Copa underlined that the plastics directive will endanger the school milk scheme which has an important contribution in creating healthy eating habits from early age. There is a need for a transitional period.

EEB is against the promotion of milk in schools.

The chair underlined that the CDG MILK – with one dissenting member – fully supports the school milk scheme.

5. Next steps

The issue of production costs and how to handle a “no deal” scenario should be further discussed.

6. Next meeting

The provisional date will be circulated.

7. Annex 1: List of participants

Annex 2: EDA Guidelines “Protection of Dairy Terms”

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”

Date: 20/11/2018

CEJA	Bellei	Giovanni
CEJA	Gunnarsson	Tony
CEJA	Wouters	Wilbert
CEJA	Dalldonne	Alda
CELCAA	O'DONOVAN	Alice
CELCAA	LIKITALO	Jukka
CELCAA	FEURLE	Klaudia
CELCAA	Kuyk	Andrew
CELCAA	DE GRAHL	Amelie
CELCAA	RASMUSSEN	Keld Winther
COGECA	DEBES	Michel
COGECA	CARDOSO	Fernando
COGECA	Harcz	Zoltán
COGECA	Śmigielska	Dorota
COGECA	EDER	Helmut
COGECA	Abrate	Tommaso Mario

COGECA	GALATOULAS	Ioannis
COGECA	Dreijere	Silvija
COGECA	Zlatar	Domagoj
COGECA (notetaker)	CAMELIA	Gyorffy
COGECA	Long	Jerry
COPA	Phelan	Tom
COPA	Stefanikova	Margita
COPA	Santalla	Roman
COPA	Tranholm Nielsen	Esben
COPA	Irvine	William
COPA	OSINGA	Klaas
COPA	ALA-ORVOLA	Leena
COPA	Hagbardsson	Malin
COPA	SCHMAL	Karin
ECVC	Lecloux	Henri
ECVC	MAISON	Pierre
ECVC	BRUBÆK	Stein

ECVC	CENDAN REGUEIRO	XOSE RAMON
EEB	VONESCH	Anne
EFA	PORTA	Francesca
EFFAT	BRUCAJ	BLERINA
EuroCommerce	MEDINA	FELIPE
FACEnetwork	Keul	Andreas
FoodDrinkEurope	KLOOSTERBOER	Wim
FoodDrinkEurope	ANTON	alexander
FoodDrinkEurope	Nalet	Michel
FoodDrinkEurope	MULVIHILL	Conor
FoodDrinkEurope	van Delft	Laurens
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