

Brussels,

## **FINAL MINUTES**

### **Meeting of the Civil Dialogue Group Milk**

**16 October 2020**

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. Election of chairperson and vice-chairs**

DG AGRI – Unit I 4

Current chair Ms Anne Randles of CELCAA re-elected for a term of one year.

Vice chairs also elected: Mr Karsten Schmal of COPA COGECA for a second term and Mr Wim Kloosterboer of FOOD DRINK EUROPE for a first term

##### **3.2. Impact of COVID-19 on the dairy market and short term expectations**

DG AGRI G3 – Krystian KECIEK

DG AGRI C2 - Andrea CAPKOVICOVA

Last meeting took place at the very beginning of the pandemic. The dairy market has shown good resilience.

**Chinese imports:** situation was difficult at the beginning of the year due to lack of containers and higher transportation costs. Still, butter imports have increased by 40% by August 2020, in particular during Q1. WMP imports also quiet from February until May

2020. In case of no particular disruption. SMP imports decreased by -10% compared to 2019, mainly due to exceptionally high figures in Jan. 2019.

In January 2020 the value of EU exports of dairy products to China was almost the same as in January 2019 but in February – August 2020 period, EU exports to China were significantly higher than in the previous 3 years. In July close to 180 million euro. EU doubled in volume butter exports to China compared to 2018. In Jan.-August period, EU butter exports increased by 66% compared to the same period of 2019. 40% more cheese was shipped. EU SMP exports to China is 9% below 2019 level but much higher than in 2018 (+47%).

In general, despite the Covid-19 pandemic, EU dairy exports to China is doing well.

**EU exports in general** (excluding UK): in each month, from January to July EU butter and cheese exports were higher compared with same period in 2019. So far, by August butter exports increased to all main destinations (+42% ytd). EU butter exports to Egypt and Ukraine were up substantially. Also very positive picture for cheeses (+9% increase in Jan.-August 2020). 14% decrease in SMP exports, but 2019 was a record high year. Exports to South East Asia of SMP are down but above 2018 level. Even though all exports were down a bit in August, it is clear that COVID-19 has not had a negative effect on EU exports – overall value of exports were up 6% and the portfolio of products remains the same. Exports to US are down a bit overall – due possibly to tariffs and also the effect of the pandemic. Nevertheless, EU butter exports increased by 18% in first 8 months of 2020 but cheese exports was down by 16%. Since February last year EU is benefiting from the EU-Japan FTA. EU exports of cheeses to Japan grew by 13% in Jan.-August 2020.

**Domestic consumption:** retail demand for dairy products was exceptionally strong, partly due to at-home cooking (HoReCa sectors and schools were closed). There was a move from fresh to UHT and longer life products like butter. Covid-19 and economic downturn had an impact on the confidence of consumers. Many of them may look at price of products with more attention.

**EU and world dairy quotations:** SMP were down sharply between March and mid-April due to the pandemic (€191/100kg). SMP prices are now fairly stable. €281/100kg was the lowest price for butter – butter price has increased by 25% since then. Both butter and SMP prices have rebounded. Cheese prices remained firm in comparison to butter/SMP.

Butter prices have fallen in the US. Now butter and SMP prices are the lowest in the US. Oceania is the most competitive for WMP. Cheddar prices in the US are in rollercoaster mode – record high prices for now (6000\$/t).

**EU Milk prices:** raw milk prices decreased 5 months in a row but recovered in July and August. Average August price was 33.05c/kg and estimation for September – 33.43 c/kg.

**EU and world milk production:** EU milk production increased 0.4% in August 2020. In August 2020, in FR, DE and NL production was lower than in August 2019.. Overall, milk collection increased significantly in first 7 months (+2%) and by August was +2.0% compared to 2019. IE, IT and PL continue to expand. Only HR, LT, LV registered a decline of milk collection so far in 2020.

Only France notified that it would be using Article 222 of the CMO regulation (voluntary milk production reduction scheme).

From January- August 2020, EU (+UK) total volume delivered was at a record high (109.8 million t). Total value of this milk production was slightly lower than in 2019, but still higher than the same period in 2018, 2017 or 2016.

Globally (combining the production of EU+UK+US+AUS+NZ) there is more milk in the world (+1.4% in August and +1.8% in Jan.-August 2020)

By July 2020, EU production of all categories of dairy products were also up, including drinking milk (+3.7%) and WMP (+4.7%).

### **PSA for dairy - update:**

19% of butter production went into PSA during this period. Proportion of SMP and cheese production going into PSA was much lower. The opening up of the PSA scheme was instrumental for the markets. Even if the PSA support for butter as well as the PSA volume distribution for cheese can be criticised, the CDG MILK acknowledged the effort by the EU Commission.

COVID-19 is not over and the situation is still uncertain – but the disruption to the dairy market has not been disastrous and recovery was faster than expected.

### **Short term outlook – Autumn edition:**

The assumptions are based on EU and UK trade functioning normally and the 2<sup>nd</sup> wave not being too disruptive.

In terms of **milk production outlook** – it was another dry summer in some parts of Europe; not as dry as 2018, but certainly drier than 2019. Conditions for pasture growth were generally positive in summer 2020. Milk production grew up to August 2020 – estimate growth in Q3 of 0.8%. A slowdown is expected in Q4 but production is still expected to be up when compared with Q4 2019 (+0.6%). Overall milk production growth for 2020 is expected to be 1.4%.

**Dairy herd developments** in 2020 up to July – slaughterings slowed down between March and May. Slaughterings picked up again in June and July.

**Challenges and opportunities for the EU dairy sector in the short term** – the economic impact of the pandemic and the potential impact on consumer buying power. Milk production growth in 2021 could be rather modest (+0.8%).

**Milk protein and milk fat content of milk are up:** +1.8% for milk protein and +1.6% for milk fat.

**Milk valorisation and the use of the milk pool:** we have seen a very high rate of production of liquid milk in the first half of 2020 – due to retail demand. An increase in drinking milk consumption in the EU in 2020 would represent a reversal of a trend in recent years. Butter production has been driven by export demand (EU more competitive). New Zealand production of butter picked up again in June/July, so EU will be competing with NZ for the rest of the year on the global butter market. Increase butter

use happened from home cooking. SMP availability is lower – intervention stocks have been cleared – so production has picked up to cope with demand. The cheese us decline is due to the closure of the food service during the lockdowns. The demand for whey powder has been strong both for domestic use (nutritional products) and exports (recovery in China).

Maximum €100,000 in form of COVID-19 aid payable for farms. This was an exceptional measure, because state aid is generally prohibited by the treaty. Compared to the covid19 support granted by the U.S. administration to the U.S. dairy sector, the EU aid scheme (incl. PSA) was very low budgeted.

The weak dollar will also make EU exports less attractive in the months to come. Trading activity is slack – buyers are only covering their short term needs, there is a lot of uncertainty around macro-economic developments.

China is the key to the stability of the market and there is no sign of trouble on its market at the moment. August imports were high mainly due to a recovery in imports from the US. Chinese buyers are in waiting mode – they look at the market for opportunities, so it can be assumed that there is some stock building that has happened. Still, real consumption has also picked up.

US market support measures (e.g. Farmers to Families food boxes) and the effects of the pandemic may have had an impact on US imports this year.

### **3.3. Trade**

#### **3.3.1. State of play with the UK and preparedness**

DG AGRI A1 – Daniela PLANCHENSTEINER

Unfortunately there has been no breakthrough in the negotiations. There are three main work streams being followed in DG AGRI:

Implementation of the withdrawal agreement: notably the citizens' rights provisions and the provisions related to the island of Ireland. EU has started a formal infringement procedure against the UK (because of the UK internal market bill).

Preparedness: frictionless trade between the EU and the UK will no longer be possible from January 2021.

State of play of negotiations: negotiations started on 2 March. EU and UK presented their texts for an agreement in March and April – but after 9 rounds there is still significant divergence on the level playing field etc.

The agreement needs to be ready in the coming weeks to allow for the ratification process to happen in time for January. However, unless the UK government introduces some fundamental changes to its approach, a deal will be unlikely. The EU position remains firm – there will be no economic partnership without a robust guarantee of a level playing field (on taxation, environmental standards, state aid etc.) An overarching institutional framework with dispute settlement will also be needed. In exchange, the EU is willing to offer unprecedented access (duty free and quota free).

There are complex issues around rules of origin for milk coming from Northern Ireland. Northern Ireland is important for the all-Ireland dairy industry.

With respect to UK agreements with other third countries – there are some continuity agreements which will not cause many changes. The EU is monitoring the situation and has tools ready in case of market disruption.

### **3.3.2. State of play of EU-US aircraft dispute affecting EU dairy exports**

DG AGRI A3 – Francisco MEGGIOLARO

Additional 25% duty continues to apply to a range of EU products entering the US. The Commission colleague provided a background of the developments that culminated in the Airbus tariffs which were first applied on 18 October 2019. Changes to the carousel of products have not really affected dairy since then. US is a major export destination of the EU so this is a huge challenge. Prior to the application of the tariff there was a build-up of stocks. The 25% tariff has been partially shared between the importers and exporters (across the distribution tariff). The aim of the EU remains the normalisation of trade relations, despite the recent announcement by the WTO of the \$4 billion award in the Boeing case. Imposing additional duties is disruptive for both sides. However if there is no willingness by the US to agree a deal, the EU will be forced to exercise their rights and impose additional tariffs on US imports. In terms of products to be targeted, COM is open to discussions with stakeholders.

Timing is impossible to comment on right now. This summer there was some good will shown by the US – i.e. the lobster deal. The upcoming election makes it harder to predict how the US administration will respond. It is clear that their actions will be influenced by the voter/US farmer perspective rather than trying to co-ordinate with the EU.

The detrimental impact of the tariffs is very real for EU dairy traders – approximately €250 million in monetary terms. The situation is not sustainable in the long run. The conflict centres on civil aircraft and dairy is being dragged into it. Reducing profits and margins has a very high cost.

### **3.3.3. Ongoing trade negotiations and implementation of concluded agreements**

DG AGRI A4 – Tomasz MAY

Latest round of **EU-New Zealand** negotiations took place in June 2020 online. New Zealand expressed strong disappointment with the EU offer (based on a leak, so before COM could communicate it to the NZ negotiators). The EU has lost credibility because of this leak, so documents and offers will be treated vigilantly. Next negotiation round is planned for the end of November – there are elections in New Zealand tomorrow (17 October). COM does not intend to raise market access issues in the next round.

DG AGRI A4 – Nuno VICENTE

**EU-Australia** FTA negotiations began in 2018 – round 8 took place in September and round 9 is planned for December. Negotiations on agriculture issues take place in particular in the context of the chapters on ‘trade in goods’ and ‘geographical indications’. Australia’s main offensive interests in the FTA negotiations are agricultural – EU interests are more diversified. Of all the agri sectors in Australia, dairy is most opposed to the deal. This is because there is still tariff protection for cheese in Australia, but also because of the EU’s offensive interests in cheese GIs. The EU sees the potential for growth in cheese exports. Currently there is no timetable for concluding the negotiations, a lot will hinge on the EU-UK outcome.

**EU-Vietnam** FTA entered into force on 1 August 2020. COM’s current focus is on the implementation. COM had a digital seminar with Vietnam last week – EU dairy export sector was represented. The main focus was on SPS and quality issues from a promotional perspective. EU dairy products do not seem to face many SPS burdens when exporting to Vietnam and tariffs will be eliminated in a relatively short period of time. COM remains open to comments from stakeholders on any issues being encountered when exporting to Vietnam.

### **3.4. Dairy policy**

#### **3.4.1. Farm to Fork strategy implementation – relevant points for dairy**

DG AGRI – Michael SCANNELL, DDG (scheduled)/ AGRI G3 - Brigitte MISONNE

The dairy sector discussion in F2F concerns all of the supply chain. The European Green Deal is a green growth strategy – so there are opportunities as well as challenges. Environmental, economic and social sustainability are all part of F2F, as well as healthy diets and the fight against obesity. F2F is also the occasion to question food affordability (are consumers paying the appropriate price for sustainable food?) in connection with the Treaty’s objective of ensuring an adequate income for farmers (rewarding sustainable production?). All regulatory proposals connected to the Green Deal/F2F will follow the better regulation process, entailing an impact assessment and open public consultations.

Short supply chains are a particularly important aspect for Commissioner Wojciechowski (shortening the distance between the Farm and the Fork).

The way forward for the farming part of the dairy sector will be through the CAP reform and its iconic new model calling for MS to design CAP strategic plans. The positions of the co-legislators on the Commission proposal are about to be known (next week). Looking at the other end of the supply chain, actions will also target consumers to empower them to make sustainable choices and fighting more effectively against food waste. A number of quantitative targets (e.g. fertilisers, pesticides reduction etc.) can be found in both the F2F and the biodiversity strategy.

The deadline for a sustainable food system is set in the strategy at 2023. Work on a contingency plan for food security has a tighter deadline (next year). A review of animal welfare legislation is envisaged, with possible relevance for dairy cows for which there is no stand-alone legislation. The list of actions annexed to the F2F Strategy also covers the reformulation of processed food (i.e. fat, salt, sugar reduction), a review of the promotion programme and the school scheme to promote more sustainable production and consumption. Labelling is strongly featured – FOP labelling, nutritional labelling, etc.

EU citizens are grateful to the supply chain for ensuring food supply during the COVID-19 confinement. The Green Deal is envisaged as a global endeavour and the ultimate goal is to drive sustainability worldwide (provisions in agreements with third countries, action in international for a, etc.)

The COM methane strategy was released this week – recommended that everyone looks into this (scientific evidence). Of course, evaluating the farming activity cannot be limited to focusing on emissions.

F2F mentions the need to rebalance diets towards more plant products, making a case for animal production to make a particular effort for more sustainability. Consumer choice for organic products will need to materialise for organic production to reach the set target. The global dimension of F2F is remarkable; it should not lead to difficulties in trade: given that the EU is the 2<sup>nd</sup> largest market in the world (after the US) this should not be a hindrance to concluding trade deals with partners. Diversified supply chains are necessary for success in the future. The environmental footprint of milk production is smaller in Europe than in many other parts of the world (e.g. the desert). The US have taken notice of the EU's Green Deal plans.

### **3.4.2. CAP reform – state of play**

DG AGRI G3 – Brigitte MISONNE

Next week is a crucial week for the CAP reform – Both the Council and the European Parliament are expected to finalise their positions on the Commission proposals. The German Presidency of the Council hopes for a general approach on Monday or Tuesday, and the European Parliament will be voting in their plenary until the end of the week.

With regard to direct payments (the key part for farmers) the approach will broadly follow that of rural development (programming, etc.), including for the layers above basic payments.

In the CMO Regulation, COM considered that present provisions worked well and that there were no grounds for a big review of this. So far, the Council has broadly taken the same approach. At EP level, there have been a large number of amendments tabled – COMAGRI has approved some of them in April 2019 and the new EP has come up with some new compromise amendments. COM's work resumes once Council and EP have adopted their positions. Trilogues would then start.

Article 222 – production reduction schemes by producer organisations for a set period of time: Article 222 scheme was permitted in 2016 but it wasn't used. It was allowed again during the COVID-19 crisis but was only taken up by the French interbranch organisation during the month of April.

Proposed Article 2019 *bis* – EP proposal for mandatory milk production reduction. COM cannot adopt a position on any EP amendments at this stage (have to wait for the trilogue).

With respect to eco-schemes, a document has been circulated in the EP and council presenting 'ideas' of what an eco-scheme might look like ('agro forestry', 'precision farming', etc.) Dairy terms are already protected in the current CAP. Next week's vote in

the EP might even strengthen this protection which has already been confirmed by the court.

In terms of the Carbon tax, this does not concern agricultural products at this stage. At the outset, the plan was to exclude agriculture from the scope. The aim is to have all countries around the world making the same effort, i.e. EU producers will not be penalised by imports of products produced to a lower standard.

### **3.5. AOB**

None

## **4. Conclusions/recommendations/opinions**

COVID-19 continues to drive the day and to influence market developments. The dairy sector has been remarkably resilient to the effects of the pandemic so far but the ongoing second wave and the macroeconomic repercussions are creating further uncertainty around dairy demand. The trade agenda remains very active with many positive developments such as the Vietnam agreement and less favourable issues like the trade dispute with the US. A lot of uncertainty remains as regards the EU-UK future relationship which is crucial for the dairy sector. Regardless of the outcome in the negotiations, operators need to prepare for a high degree of friction in terms of customs procedures, SPS measures, labelling etc. The implementation of the Farm to Fork strategy and the finalisation of the new CAP will determine the agriculture agenda going forward. The bottom line is that the EU dairy sector needs to do its part under the Green Deal by becoming increasingly (economically, socially and environmentally) sustainable.

## **5. Next steps**

It is likely that the topics listed in point 4 ('conclusions/recommendations/opinions') will form a major part of the agenda in meetings to come.

## **6. Next meeting**

The date of the next meeting was not discussed.

## **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  
16 Octobre 2020**

MEMBER ORGANISATION	NUMBER OF PERSONS
EuroCommerce	2
Eurogroup for Animals	1
European agri-cooperatives (COGECA)	10
European Coordination Via Campesina (ECVC)	2
European Council of Young farmers (CEJA)	4
European Environmental Bureau (EEB)	1
European farmers (COPA)	10
European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT)	1
European Liaison Committee for Agriculture and agri-food trade (CELCAA)	6
European Milk Board (EMB)	3
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
<b>TOTAL 50</b>	