

Draft Minutes of the Civil Dialogue Group on Milk on 28th October 2016

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15. AOB

1. Adoption of the agenda and approval of the minutes of the previous meeting of the CDG which took place on 3rd of May 2016

The agenda of the meeting was adopted.

The minutes of the previous meeting were adopted with a minor change from EEB on the point regarding school schemes: replace “overconsumption” with “oversupply”.

2. Elections of the Chairman and Vice-Chairmen

The European Commission presented the rules for the elections. 39 experts were present.

Three candidacies have been received: 1 for Chair, from Cogeca, Mr Tommaso Mario Abrate; 2 for the two Vice-chairmen positions, from Food Drink Europe, Mr Michel Nalet and from Celcaa, Mr Jack Baines.

The three candidates were elected by qualified majority.

Via Campensina asked about the involvement of the chairman in activities outside the CDGs. EEB wanted to know the position expressed in other meetings on behalf of the CDG.

The chairmanship replied that besides the agenda drafting (including the strategic agenda), it is also possible to participate in external events, but these are limited. All contributions are important and are taken into account.

The European Commission reminded that the minutes have to be sent 20 working days after the meeting.

The chairman thanked the group for its confidence and underlined the great challenges ahead of the dairy sector (mainly volatility). He underlined the need for an extra meeting.

He took the opportunity to introduce the new Copa and Cogeca Working Party on Milk and Dairy Products Chairman, Mr Thierry Roquefeuil, from FNSEA, France.

3. Market Situation

a. Presentation by Commission and comments from stakeholders/exchange of views

The European Commission representative gave a presentation which can be found on CIRCABC:

- Between January and August, milk collection has been up by 2%, however since June, it has gone down;
- Prices paid to farmers have seen their first increase in August and estimates for September show an increase from 26.4 €/100 kg to 27€/100 kg;
- Dairy commodity prices have seen an increase since May. Butter prices have increased the most (by 50%), with the lowest increase for SMP prices (still up 24%). Butter prices are close to 2013 levels;
- Since mid-September, no quantity of SMP has been offered into public intervention. Until now, there are 350 000 t of SMP in public intervention (some 30% of the SMP production this year has been sold to intervention). Offers are also down for PSA for SMP over the last few weeks and operators seem to prefer now the standard 210 days storage scheme. PSA for butter: high volumes but a lot of quantities are going out. PSA for cheeses: some stocks are out;
- Dairy quotations at world level follow an increasing trend, except for US which has seen high prices in the last years. Given stock accumulation and production increase, US dairy commodity prices are now at lower level than last year;
- Trade: US exports are down for all products. New Zealand exports are up for SMP. Argentina is up for cheeses. EU has improved its butter and cheese exports while SMP exports are down;

China has increased its imports. Russia has increased imports from Belarus and Argentina

- World production: Australia -10% drop due to heavy rain, New Zealand -0.2%. US remains the only region still increasing production (+1.7%);
- Conclusion: more optimistic dairy products prices, some increases in producer prices which is also a result of production levels. Still, caution is needed as new campaign will soon begin. It is important for producers to be market oriented.

b. Short-term outlook

The European Commission representative gave a presentation which can be found on CIRCABC:

- World demand for cheese and butter has increased (1% increase in milk equivalent due to the increase from China). Russia has also increased imports from Belarus, Argentina, Serbia. Japan decreased its imports, but high added value imports increased. EU exports were up 2%, New Zealand and Australia were down by 4%. Production has gone down worldwide. 3 million t in milk equivalent are in SMP stocks;
- Pasture productivity is good, this may encourage supply. Cereal production is low;
- Cow slaughterings have increased by almost 5% in EU15, and almost 15% in EU-N13;
- Milk collection is expected to continue decreasing until the end of the year. Overall, milk collection is expected to increase by 0.6% in 2016 and by a further 0.5% in 2017;
- More milk goes to cheese. The Commission does not think that there will be SMP intervention buying next year but it depends on the increase in SMP production. If prices increase, the Commission might sell SMP on the market;
- Butter and cheese consumption per head is dynamic, the positive trend may continue;
- Butter exports are not expected to be as great as this year.

Discussion

Copa underlined the cash-flow difficulties for farmers, which still persist. Raised the point on the release of the stocks on the market. After two years of crisis, it is essential to find a sustainable dynamics before the Commission takes this action. If some of the measures come too late, we should be careful that some of the measures are not taken too early.

Via Campesina justified their reaction for the election of the chairmanship. When it comes to export figures, it would be good to have the volumes per month. Regretted that the Commission has not acted sooner. If prices increase, production will go up again. Expressed in favour of a concerted action when it comes to milk production.

EMB underlined the fact that the financial situation of milk producers is unsustainable and that there is a need to get prices higher. 400 000 t of SMP is in stocks, the Commission should allow giving it to pigs.

Eucolait share the cautious optimism expressed by the Commission. The main question in the near future will be how EU exports would be able to perform at higher prices. At the moment, it is difficult to find buyers. The situation for SMP is more challenging than for other products because of the high stocks. Despite a low performance overall this year, since July the US have exported more as they are the most competitive on SMP and cheese. Expectations are that this continues. A strong reaction by producers to rising milk prices (in the form of increased production) would not be a good thing at this stage as it might bring the market recovery to an end.

EEB is aware of the financial difficulties of milk producers. Those producers who are in trouble are those who invested in increasing production, young people.

EDA are also rather cautious and less optimistic. They are afraid that SMP volumes will be the difficult part of exports. Today demand is rather low. The Commission should react against the campaigns against milk as this will impact demand. The chairman encouraged the Commission to defend the positive aspects of consuming milk and dairy products and also take action for the misuse of some terms as “soy milk” which mislead consumers.

The Commission underlined that the products bought into public intervention will have to return to the market but the Commission has to do it in a way not to disturb the market. It can't be anticipated when this will be done. It is important to know the strategy the industry has when 400 000 t of SMP are in stocks. The Commission intervened on the market within the limits set by the legislation. The MMO June report from 2015 underlined that the supply side needed a correction so that market sentiment is improved. The supply side only reacted in June 2016. Crisis can't be prevented.

4. Presentation and implementation of the July support package in particular:

a. the EU aid for milk production reduction (including the take-up of this measure)

b. the exceptional adjustment aid (including implementation at MS level)

c. the prolongation of art. 222 of CMO

d. the revision of the voluntary coupled support

e. the possibility of advancing direct payments

The Commission representative gave a presentation which can be found on CIRCABC:

- on the production reduction scheme: the true impact of the measure will be known at the start of next year. The deadlines for payments were referred to. All MS participated except for Greece, with France having the highest number of interested milk producers;
- on the exceptional adjustment aid: by end of November, all MS will have to notify how they will use the envelopes. There are some indications but for now, the information is not yet confirmed;
- on coupled support: only Slovenia decided to revise the provisions on voluntary coupled support for dairy;
- on advanced payments: 16 MS have plans to advance/have advanced the direct payments, amongst which 13 will pay advances above 50%.

Discussion

Copa underlined that the holding economics may not allow that the declared reduction quantity is reached. Also, others may reduce but without being eligible. It is important that if there are unused funds, they stay within the milk sector but with conditions to be defined. Current tools have proven efficient. The latest measures may encourage farmers to get out of dairy and regretted that many people who have made investments and who have debts are incapable of benefitting from the schemes.

Cogeca asked if the Commission intends to develop crisis management tools.

Via Campesina mentioned that it is better to have these measures later than never and that we should avoid that large farms benefit from it. Regretted that the measures for reducing production does not target all milk producers.

EEB supported Via Campesina. Small farmers should be protected. Against very large farms.

EMB underlined that dairy producers have suffered serious losses and that crisis is not yet behind. The Commission should think about additional measures that are now necessary. A solution is needed at EU level. Available instruments have not worked.

The Commission representative underlined that if money for production reduction is not used due to certain circumstances (with market evolving every day), DG AGRI has no particular right on this money which will go back to the budget. It is not possible to earmark it as the adopted regulation does not foresee this. It can't be used to foresee a new cycle nor a top-up for those who reduced production as the aid level is fixed in the regulation. The Commission had meetings with stakeholders within which it was underlined that in the interest of EU producers in order to maximise the number of beneficiaries, dairy producers need to submit genuine applications. Crisis management has been the core of the Commission action. The Commission has tried to identify suitable measures that also help farmers (in addition to direct payments which contribute to farmers' incomes), including financial help, mobilised art. 222 for those who wanted to use it but the responsibility is also on the farmers' side.

5. Results of the Sustainable and Low Input Dairying (SOLID) FP7 project by Dr Phillipa Nicholas-Davies from Aberystwyth University

Dr Phillipa Nicholas-Davies from Aberystwyth University presented the results of the project. These can be found on CIRCABC:

- the project was completed in 2016 (it gathered 24 partners, including dairy cooperatives and SME's);
- The organic market has been growing from 2007 to 2014. On milk, there is a big variation between countries on the market share of organic milk;
- the project looked at the whole supply chain, and had a strong focus on participatory research;
- novel forages and forage feeding strategies and adapted genotypes were looked at;
- FADN was used for the financial analysis of organic and low input dairy systems ;
- Consumer research indicated there is little willingness from consumers to pay for system changes unless it is about reducing the risk of GM contamination or improving the quality of milk in terms human health;
- Report recommendations: extend the use of home-grown and local feed. Novel, alternative feeds should be introduced. Breeding strategies targeted to high forage diets and reducing health related risks. Extension and dissemination policies need improvement, focus on usefulness of innovative strategies, need policies tailored to local specific environmental and ecological conditions. Link to the project: <http://farmadvice.solidairy.eu>.

DG Research was also present and said a few words on this project which was EU-financed.

EEB likes the presentation but warns that consumers willingness to pay changes, as we have seen for cage-free eggs. Today, most consumers don't know anything about dairy calves being taken away from their mothers. However this issue will be the major challenge for dairy production within 10 to 20 years. EEB asks that much money is spent on research on how to keep dairy calves with their mothers. The market is not able to resolve the issue of ethics and sustainability if there is no such input upstream.

6. Findings of the Agricultural Market Task Force on the dairy sector (including the outcome of the meeting on milk issues between High Level Representatives of the Member States and the Agricultural Markets Task Force on 16th September)

The Commission representative reminded that one of the conclusions of the Council of Ministers in March was to bring together MS and the AMTF to discuss structural issues on dairy. This meeting took place on 16th September. Several challenges have been underlined: generation renewal, social legitimacy of public support, climate change effects and vulnerability to geopolitical developments. It has been mentioned that being a farmer is a high risk business choice. There is a difference between price volatility and price levels. The first can be tackled through risk management solutions while price level is a matter of competitiveness. A questionnaire has been distributed to the MS with three questions on safety net, direct payments and price observatories. MS support the safety net but look at other issues like fixed price contracts, futures, income stabilisation tools, mutual funds, insurance schemes. MS underlined the importance of coupled payments. All MS have systems to collect data, the MMO has been a major improvement and plays a vital role in data transparency, this could be complemented with other steps in the food chain without bringing excessive red tape. There was a consensus to focus more on research and education, knowledge transfer for new business models to enable farmers to get a share of the market. Focus was also on more cooperation, more solidarity.

Discussion

EDA asked what is understood by new business models as cooperatives are already very well established business models.

Eucolait underlined that MMO has evolved a lot but still consumption data is missing. Asked if it is possible to publish more data on this.

Copa asked when the report of the AMTF is going to be out.

The Commission representative could not disclose what is understood by new business models but underlined that the cooperative model is seen as bringing value. The views of the AMTF members are different. The task force report is an independent one. Euromonitor data is used for consumption data and will look for ways to better share this. The TF report will be ready mid-November when it is intended to be presented at the Council of ministers. This report and the report on the milk package will be the basis for future legislation on the topic.

7. Update on the activities of the High Level Forum for a Better Functioning of the Food Supply Chain

The European Commission representative gave a presentation which can be found on CIRCABC:

- The work programme is based on the input from the Sherpa members;
- 3 clusters: fair and efficient trading practices, competitiveness and new opportunities in the single market for food, price transparency within the food supply chain;
- The inaugural meeting will be on 15 December and will set the agenda for next year;
- The forum is an ongoing process, working all year round with Sherpa meetings and other activities defined by members;
- The Commission may consider further actions if necessary on the basis of the work of the Agricultural Market Task Force and the High level forum;
- Potential interest for the CDG on Milk: origin labelling, price transparency, UTPs, consumer engagement, sustainability, innovation.

Discussion

EDA as a member of the HLF regretted that it took one year to have the date for the first meeting of the HLF scheduled and shared its concerns that it could seem that the HLF might have lost a bit of momentum.

Copa underlined the importance of the topic for dairy producers.

The chairman concluded about the importance to have a clear strategy and clear measures.

8. Overview of the changes to private storage aid and public intervention resulting from delegated regulation 2016/1238 and implementing regulation 2016/1240

The Commission representative gave a presentation which can be found on CIRCABC:

- Regulations 1272/2009 and 826/2008 have been repealed. The Commission presented the content of the delegated and implementing act. For public intervention, there have been some changes on minimum quantities, days of notifications, provisions on transport costs, on conditional takeover. For PSA, there have been some changes on time limits, applications, contracts etc. The two regulations are in force since 1st October except for SMP, where provisions for intervention and PSA will enter into force on 1st January 2017 and 1st March 2017 respectively.

Discussion

Eucolait asked if the impact on operators' cash flow has been taken into account when the provision on the deletion of advanced payments has been introduced.

Copa underlined the importance of having an effective intervention system and reminded that intervention price levels are not adequate.

The Commission representative reminded that the impact on operators has been discussed but the decision took into account the timing of the advanced payments and the cumbersome management of related securities. There is no plan to change the regulation on the intervention prices.

9. Implementation and evaluation of the milk package (state of play on the report)

The Commission representative underlined that:

- the report due by 2018 was advanced to 2016 (decided with the solidarity package);
- A survey was sent to MS and a questionnaire to existing POs and farmers organisations;
- The report is now in the adoption procedure, expected to conclude by the end of November. Once adopted, the report will be presented to the European Parliament and the Council in December;
- It has become clear that the milk package is more relevant in MS where cooperatives do not have a relevant market share. In those MS, the milk package has made a difference. There is big potential to develop it further in the MS where it is relevant.

10. Overview of the planned changes to dairy tariff rate quota management

The Commission representative gave a presentation which can be found on CIRCABC:

- He explains the new legal structure of the TRQ legislation and the main simplifications envisaged for the dairy products quotas.
- For import quotas he refers to the criteria that may be taken into account for a potential transfer of the license management to the FCFS system (non-sensitive quotas) with the intention to remove the license procedure..
- He informs that for certain over demanded (sensitive) quotas, there will be additional eligibility conditions but they are unlikely to apply to the dairy quotas which are currently not used or underused.

- After the vote on the implementing act beginning of next year, the legal procedure on delegated acts will start. New rules will not apply before 2018.

Discussion

Eucolait asked when next meeting will take place and how many opportunities per year will be to apply for licences. Simplification is welcomed.

The Commission replied that the meeting will take place on 14th -15th November and the first draft on dairy will be discussed. The new regime could be applied in January and in July 2018, depending on the start of the quota year. Two application periods per year will be maintained for most of the quotas.

11. Canada (CETA): cheese quota management in CETA and recent evolution of Canada's dairy policy. USA: application of special safeguard duties in 2016

The Commission representative gave a presentation which can be found on CIRCABC:

Cheese quota management in CETA:

- The total of the cheese quota, after the phasing in period provided for in the CETA agreement, opened by Canada for EU cheese will be 32 000 t. Canada will manage its new quota on cheese on the basis of an import licence system;
- There will be 30% allocated to newcomers and the management system provides for an under-fill mechanism and a review clause
- Besides, CETA contains a declaration on TRQ administration with the main features of the system.
- The provisional application is expected in 2017 depending on the timing of the signatures.

The recent evolution of Canada's dairy policy:

The Commission representative gave a presentation on the Canadian dairy policy which can be found on CIRCABC:

- The Canadian dairy industry submitted for ratification the new dairy ingredient strategy, which may replace imports of cheap protein concentrates by domestic products;
- To compensate the income loss for the farmers, the lower price for protein will be compensated by a price increase of the milk fat component;
- When it comes to WTO implications, the Commission is still in the process of scrutinizing the WTO compatibility of the measure .

Discussion

Eucolait asked about the ratification timeline.

Copa asked which businesses will fall under the 30% of newcomers.

Eucolait encouraged the Commission to pay attention to the cheese TRQ administration and the new ingredient strategy once the provisional application of CETA begins. It is important to follow any breach of commitments by Canada through their domestic policies. As the measure is likely going to substitute imports, Eucolait doubts whether the measure is WTO compatible.

Via Campesina asked how will the MS opinions be taken into account.

EDA raised the attention on the future negotiations between New Zealand and the EU. A fact sheet ('EDA Dairy Trade Focus New Zealand') has been distributed to the members of the CDG on Milk

showing that this is not the right moment for the dairy sector to start discussing about a potential agreement and a fact sheet on EU CAN dairy trade is being made.

The Commission representative reminds the procedure for CETA which is a mixed Agreement. The provisional application of such an Agreement is submitted to the signature of all MS governments followed by the Council and the EP approval. In parallel the ratification process starts and can take several years, after which the application becomes definitive.

70% of the new cheese quota will be for traditional importers and 30% will be reserved for newcomers. On the question how a trader can acquire the status of a newcomer, the Commission representative replies that an applicant shall be registered as a trader in Canada and he shall prove to be active in the Canadian cheese sector.

USA: application of special safeguard duties in 2016

The Commission representative reminded that last year, the US had triggered the special safeguard clause on butter. This was WTO compliant, but it had no economic justification. For this year, there is an increase, both of the trigger and the imports. It remains an open question if the US will apply it again this year. Price development may play a role on the quantities imported. Last year, US butter prices were higher than in the EU, now it is the opposite.

12. School Milk Scheme – state of play on the delegated and implementing acts

The Commission representative gave a presentation which can be found on CIRCABC:

- The Commission has started the work on the delegated and implementing acts in May;
- The preparatory work for the drafting of the delegated and implementing acts was carried out in line with the Better Regulation principles, by consulting experts from national administrations and stakeholders and by gathering advice in a transparent way;
- The CDGs on Milk and Fruits and Vegetables have been consulted through a questionnaire;
- MS health authorities have also been consulted;
- The draft delegated and implementing act were published in the Commission's Better Regulation portal for one month for comments from any stakeholder;
- The Commission explained the content of the delegated and implementing acts and the feedback by stakeholders' on the delegated act;
- Next steps: the implementing and delegated act were adopted on the 3 November, the delegated act has been submitted to the EP and Council for scrutiny.. The publication of the two regulations is foreseen for beginning of January 2017, to allow sufficient time for the start of the new scheme in August 2017.

13. State of play on the national developments on the country of origin labelling for milk and dairy products

The Commission representative:

- underlined that a report has been prepared on the possibility to introduce EU legislation on mandatory options and the main conclusion was that there was a mismatch between consumer readiness and consumer interest to pay.
- reminded the possibility to have voluntary labelling options. The Commission is now working on detailed implementing rules on this.

- reminded the legal framework which allows MS to introduce origin labelling at national level if they comply with certain criteria. The Commission has three months to react. This has to be transparent towards MS and stakeholders. When it comes to the national request from France, Lithuania and Italy, the Commission did not object. These measures are limited in time. Greece, Portugal and Finland have also notified the Commission and a reaction will be delivered in 3 months' time.
- mentioned that there will be a report at the end of the experimental period (in 2 years' time) when the Commission may reflect again on their opinion on this topic. For now, we work with the voluntary approach.

Discussion

EDA expressed its strong opposition to the introduction of origin labelling provisions on a mandatory basis as it threatens the single market. Welcomed the efforts on the voluntary aspects.

Eucolait rejected mandatory country of origin labelling as this will have serious consequences for the single market for dairy and is of the opinion that the measures taken by various Member States on this issue are incompatible with the EU food information regulation. Balancing trade between Member States is crucial as no country is perfectly self-sufficient on all dairy products. For instance France, despite being a net exporter, is reliant on butter from other Member States.

Copa underlined that it would be difficult to reach unanimity on such a controversial topic. The issue is more global and concerns the European dynamics and producers' viability across all countries. 85% of our products are consumed internally, we need to valorise the labelling system. Underlined that producers are willing to share this information as everything is traceable.

Via Campesina mentioned the need to improve product origin. In the context of globalization, it is in the interest of consumers to know if butter comes from New Zealand or the EU.

The Commission will assess the potential way forward. If producers want to show the origin of the product, they can also make use of quality denominations, and not add additional burden. The legal framework allows origin labelling under certain conditions but the Commission has equally heard the concerns for the internal market.

14. Climate change

a. update on the COM legislative proposal for a revision of the European Emission Trading Scheme (ETS) (in particular SMP as part of the Carbon Leakage List)

b. LULUCF – newest COM legislative proposal for the non-ETS sectors in the actions for climate change and agriculture and food production

The Commission representative gave a presentation which can be found on CIRCABC.

Discussion

EDA thanked the EU Commission for the support so far when it comes to defend the dairy points within the ETS.

Eucolait asked if carbon import will be discussed in next meeting.

The Commission representative reminded that international aspects of carbon accounting will be discussed under the UN starting now in Marrakesh.**15. AOB**

There were no AOB points.

The chairman concluded the meeting by thanking all participants for their contributions, Commission staff for their assistance and the interpreters for their work. The future meeting is provisionally scheduled for April (no exact date yet).

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."