



Brussels,
AGRI.DDG3.G/MS (2022)7891761

MINUTES

Meeting of the CDG Milk

via videoconference (Interactio)

3rd October 2022

Chair: AGRI. E3 Animal Products

All organisations were represented except for Farmhouse and Artisan Cheese and dairy producers' European network (FACEnetwork), Eurogroup for Animals (EFA) and European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT).

Ad hoc expert: Maks Fasteyev, Project Partner Infagro Ltd, Ukraine.

1. Approval of the agenda and of the minutes of previous meeting

2. Nature of the meeting

Online non-public

3. List of points discussed

Please find the positions expressed by participants in relation to some of the topics discussed, submitted by EDA and CELCAA/Eucolait, in Annex I

1. Approval of the agenda

2. Milk market situation/UKR and short-term outlook 2022 and beyond.

Milk market situation

The Commission presented the most recent market data. The milk market situation is rather unique, with weak milk collection despite record high raw milk prices. On the list of issues that cause great concern, in addition to the ongoing war in Ukraine, are very high input costs and increasing food inflation in the EU. The confidence of farmers and consumers is declining.

On milk production, total volume delivered in first 7 months of 2022 was modest compared to last year (-0.5%, -400 000 t) but much higher than in 2019 (+1.35 million t). Estimated value of EU milk production in Jan.-July 2022 was above 40 billion EUR, 30% higher than in January-July 2021 and 74% higher compared to 2016. Only in 9 MS, milk collection was higher than in 2021, the highest growth was recorded in AT, LT, PL, and the biggest decline in BG, CY, HR, RO and

MT. The growth of production in Poland this year (+2.4% in Jan.-July, +5.8% in July) does not offset the declines in the two largest producers (DE, FR, both -1.3% by July).

Globally, in the first 7 months of 2022, milk production declined in other major exporting countries, in NZ (-5.5%), AU (-6.9%), USA (-0.6%) and UK (-1.7%). However, this negative trend is beginning to change in the USA (+0.2% in July, +1.6% in August). After 7 months of 2022, combined production of AUS, US, NZ, UK and EU decreased by 1%.

EU production of WMP and condensed milk recorded the highest decrease by July, -4.3% and -3.7% respectively. Cream was the only product showing a production growth (+1.1%) so far this year.

EU raw milk prices have constantly been improving since the beginning of 2021, and are above recent and medium term references (42% vs. -1y, +47% vs. 5 y avg.). EU raw milk prices reached 51.1 c/kg in July 2022 and a further increase is expected for August.

Based on 2020 FADN data, both operating cost index and milk price index increased in Q2 2022 compared to Q2 2021. The gross margin index was also higher in Q2 2022 than in the same period in 2021. Price indexes for the means of agricultural production (energy, fertilizers and soil improvers, plant protection, pesticides, veterinary expenses and animal feeding stuffs) have been increasing rapidly since Q4 2020.

Organic milk collection is still quite low in the EU. In July 2022, 4.3% of total raw milk collected was organic (based on notifications from 23 MS). MS with highest organic milk share: AT, SE, DK and the lowest in PL, PT and EE. The price premium for organic raw milk has significantly dropped to only 4.5c (EU average). In 2 MS (BE, LV) raw organic milk prices are lower than prices of conventional milk.

All EU dairy prices have improved since beginning of 2022, except for whey powder (-1.1%). Butter prices are at record high, above 700 EUR/100kg since 22 May 2022, now reaching 723 EUR. Compared with global competitors, Oceania is much more price competitive on butter and WMP, and USA more competitive on SMP and cheddar.

Compared to 2021, which was an exceptionally good year for EU trade, export figures are lower in volume but higher in value in the first 7 months of 2022. Significant drop of EU exports to China and Ukraine. China is importing much less milk products this year, except for lactose (+7%). Whey powder imports decreased by 34%, SMP by 38%, cheeses by 21%. EU dairy exports to the UK have improved this year, compared to the rather low levels of 2021. In the first half of 2022, EU cheese exports to the UK went up by +6%, butter by +72%, SMP by +16%, whey powder by +24% and fresh dairy products by +72%. Remarkable increase of EU dairy imports from Ukraine was recorded since May 2022, reaching a total value of 102 million EUR in first 38 weeks of 2022 (latest data based on Taxud surveillance). Top EU importers were PL, NL, LT, DE, and BG.

The value of EU dairy exports in January–July 2022, was worth 8.4 billion EUR, +14% increase compared to 2021. Top-5 categories of products were: cheeses

(3.1 billion), SMP (1.4 billion EUR) followed by fresh, butter (oil) and wheypowder.

Non-dairy products: in Jan.-July 2022, the top-10 EU Fat Filled Powders exporters were: IE, NL, DE, PL, DK, BE, FR, SE, IT, ES and the main market destinations were: Senegal, Nigeria, U.A. Emirates, Bangladesh and Iraq.

Short-term outlook

The hot and dry summer impacted negatively grass availability and quality as well as crop yields. In some cases, farmers already used some part of the feed destined to the winter. This could cause further tension on feed costs, which add to other high input costs. The overall 2022 EU milk production outlook therefore remains negative (-0.5%), with a further reduction of the dairy herd expected (around 1%) while yields could grow less than last year (only around 0.4%). Milk solids could also be impacted negatively from lower availability and quality of feed. This continues further constraining milk availability for processing. Overall, a drop in EU exports is expected, in particular driven by lower SMP and WMP exports while domestic use could remain stable.

3. Impact of Russia's invasion of Ukraine on the markets and EU response

a. Impact of Russia's invasion of Ukraine on the dairy market

The EDA representative gave a short update on the ad hoc meeting of the expert group on food security of 23 September 2022 and underlined the critical situation of the processing industry with regards to energy prices. While energy costs for a 'normal' dairy processing site have ranged pre-crisis around 2–5% of total costs, they are now – despite record high milk prices – above 20%. The liquidity of dairy companies will not allow to carry on for many more weeks under these conditions. While the peak of gas prices can to a large extent be explained by global market mechanisms, the electricity prices have a strong internal political component (e.g. merit order system). The new ceiling for State aid for processing companies (500.000 euros) does not even cover half of the extra costs for one month energy supply for a typical drying tower. The example of Spain and Portugal (50 euro / MWh ceiling) or UA (energy priced fixed for essential industries, like dairy – see ppt of Maks Fasteyev) must be followed to a) decrease energy prices and b) harmonize as much as possible energy prices within the Single Market.

The EDA representative also pointed at the international situation with EU gas prices seven times higher than U.S. gas prices.

b. Development of the Ukrainian dairy sector during the war

The representative of Infagro described the risks and threats the Ukrainian dairy sector is confronted with, detailing the main impacts of the Russian aggression. Then an overview was given on the current domestic market situation (milk prices and production costs, dairy trade).

c. EU response

The Commission representative outlined the main impacts on food security of the war in Ukraine, notably on energy, fertilisers and feed. An overview was given on the different initiatives taken by the EU at a global level, and also at EU level (e.g. €500 million exceptional adjustment aid).

4. Relevant aspects of approved CAP strategic plans

The Commission representative presented an overview of support to the dairy sector under the draft CAP Strategic plans as submitted by Member States based on Regulation (EU) 2021/2115.

Due to ongoing work on assessing Member States' plans, only partial analysis was presented. More time is needed to analyse Member States' CAP Plans as a whole, taking into account at least the most relevant interventions which could support the dairy sector. Commission committed to present this more elaborated analysis later.

For the moment, the presentation focused on coupled income support (CIS) and, to a lesser extent, on support under sectorial interventions (SI).

The CIS legal framework and its main differences from voluntary coupled support (VCS), which is available to farmers up until 2022, based on Regulation (EU) 1307/2013, was presented.

Compared to VCS, CIS is more of a strategic tool, because the support should not only be granted to sectors in difficulty, but it should also demonstrate how the difficulty is going to be overcome by improving competitiveness, sustainability or quality issues. Also, CIS interventions have to be in line with Water Framework Directive.

According to preliminary data, milk remained the 2nd most supported sector/production under CIS, accounting to about 1/5th of total CIS envelope. Member States also seem to increase support for protein crops, the scope of which is extended compared to VCS, which opens more possibilities for dairy farmers. Most Member States planning support for milking cows tend to increase support per cow, but the overall support for dairy sector under the CSP, taking into account other relevant interventions, is yet to be assessed.

Regarding SI, it was noted that only a few Member States took advantage of the newly available possibility provided under the CSP to support producer organisations in dairy sector.

5. Review of EU marketing standards for agricultural products

The Commission representative outlined the main steps of the process for the review of marketing standards (as an action from the Farm to Fork Strategy) indicating changes being contemplated for dairy products (two technical adjustments to the Directive on preserved milk). Commission proposals are expected to be adopted towards the end of 2022 – beginning of 2023.

6. Update on the evaluation/impact assessment for the review of the EU school scheme

The Commission representative updated the group on the latest development in the ongoing evaluation and impact assessment for the review of the EU school scheme as follows: results of the special Eurobarometer No 520/2022; key highlights on the public consultation (for which a summary of the replies will be posted in the Europa webpage, together with a factual summary); timeline for the external evaluation support study and the complementary study, focusing on health and sustainability aspects, and results of the assessment report by the European Parliament research service published in July 2022; forthcoming public conference on 24 November (invitations and agenda to follow).

In reply to the Danish Dairy Board, the Commission representatives clarified that the question in the public consultation was on the distribution of plant based drinks, not nutritionally qualified nor indicated as an alternative to milk; and not as to include fruit juices, appearing as specific example under the category of processed fruit and vegetables.

7. Review of the geographical indications (GIs) systems – state of play

The Commission representative presented the legislative proposal on geographical indications (GIs) and the state of play of the discussions in the European Parliament and in the Council.

The legislative proposal is intended to harmonise the rules across the sectors of Agricultural Products, Wines and Spirit Drinks. It also introduces novelties concerning the sustainability, the use of GI as ingredients, the recognized producer groups, a better protection on Internet, a GI certificate, technical assistance from EUIPO (European Union Intellectual Property Office) and on single committee for GIs.

In the Parliament, the Committee for Agriculture is in charge and Mr De Castro has been designated as the rapporteur. On 31 March, the Commission presented the main elements of the legislative proposal at the COMAGRI meeting. Technical meetings with the Parliament took place on 27 April and 20 June between the Commission representatives, EP staff and the assistants of the Members of the Parliament.

In the Council, the ministers for agriculture discussed GIs on 21 March, 7 April and 13 June. At the last meeting, FR Presidency presented the progress report. In the Special Committee on Agriculture, the Commission presented the legislative proposal on 2 May, 12 July and 10 October.

The work in the Council is currently taking place in the working party that has met five times under the FR Presidency. Seven meetings are announced during the CZ presidency.

8. Revision of the Industrial Emissions Directive (IED)

The Commission adopted a proposal for a revision of the industrial emissions directive and a related Regulation on the pollutant transfer register (E-PRTR) on 5 April. It is now urgent for the livestock sector to tackle its emissions of methane and ammonia that have not reduced significantly since the early 2000s, despite receiving substantial funding via various schemes in the CAP. This is in stark contrast with emissions from industry covered by the IED that has decreased its key pollutants by 45 to 75% over a decade.

The inclusion in the IED of cattle farms for the first time and the inclusion of additional pigs and poultry farms target only the 13% largest livestock farms overall (currently + newly covered farms). These farms are responsible for 60% of the ammonia and 43% of methane pollution from EU livestock.

Farmers will have to implement emission reduction techniques by mid-2029, leaving ample time to the sector to prepare. Under the current CAP that runs until 2027, Member States may include support measures for reducing emissions of methane and ammonia, both support to operational costs and investments. Whether further support measures would be needed for the subsequent years may be considered as part of the design of the CAP for the next financial period.

In order to limit administrative burden for both farmers and the EU's Member State permitting authorities, a lighter "tailored" permitting regime will be put into place for the livestock farms under the new IED. The proposal also allows Member States to implement a registration system that is compatible with the minimum requirements of the tailored permitting system.

This will enable farmers to be informed about and deploy optimal pollution control and pollution reduction and decarbonisation solutions, using the latest techniques, whilst keeping the burdens relatively light.

Estimated methane emission reductions from cattle are based on a nutrition technique that reduces enteric emissions by 10%. This is a minimal estimation. DG SANTE approved in April 2022 the use of a feed additive that reduces enteric methane by 25; furthermore, scientific publications report higher emission reduction potentials (c. 36-50%). For pigs, methane reduction is estimated at just over 35%. Detailed assessment of specific feeding techniques for both types of animals will validate such potential savings. Ammonia emission reductions have been estimated at 12% for cattle, around 7% for pigs, and approximately 20% for poultry.

Even these minimal estimations result in a highly positive benefit to costs ratio for society of over 11, resulting in total human health benefits of around €5.5 billion per year. It means that the costs for operators and permitting authorities to implement the obligations are 11 times lower than the human health benefits. In reality, the ratio is even higher, as the generally accepted available monetisation methodologies are based solely on human health economics and as such do not fully enable the calculation of the ecological benefits of a cleaner environment and safeguarded biodiversity

9. Food labelling – Revision of rules on information provided to consumers

The Commission representative recalled the context of the food labelling initiatives announced in the Farm to Fork (F2F) Strategy regarding the Proposal for a revision of the Regulation on Food Information to Consumers (FIC). The food labelling proposed measures are front-of-pack nutrition labelling, the setting of nutrient profiles, origin labelling, date marking and alcohol labelling.

The Commission representative highlighted the different problems the revision of the FIC Regulation aims to address, in particular lack of consistent and accessible information for consumers inhibits informed consumer choice and inconsistency in the rules on food labelling across MS result in single market fragmentation. The COM explained the short and long-term objectives that the revision of the FIC Regulation targets.

Furthermore, the COM described the policy options which are laid down in the Inception Impact Assessment (IIA). The COM further explained the state of play and the key steps of the Impact assessment (IA) related to the revision of the FIC Regulation. The COM presented the additional scientific evidence and studies that were collected to provide further input to the IA. Finally, the COM informed that the IA is being finalised and that the adoption of the legislative proposal for a revision of the FIC Regulation is scheduled in the coming months.

A number of questions were raised by stakeholders in particular regarding origin labelling in relation to the impact on sustainability, the internal market and on the supply chain.

10. Legislative framework for sustainable food systems – state of play

A Commission representative presented the state of play of the forthcoming Commission's proposal on the Framework Law on the Sustainable Food Systems (FSFS). It was explained that the initiative, expected to be published at the end of 2023, aims at promoting a better policy coherence at EU and MS level, mainstreaming sustainability in all food-related policies, strengthening the resilience of the food system, while ensuring a better food environment where choosing healthy and sustainable food is easier for consumers. The main policy options of the ongoing impact assessment were presented, together with some indicative elements that are part of the ongoing Commission's reflection in relation to minimum requirements, definitions, sustainability labelling, procurement and governance.

11. State of play of EU trade agreements with third countries (Australia, NZ)

New Zealand:

- The successful conclusion of the FTA on 30 June 2022 confirmed that EU and New Zealand are not only longstanding partners but also share values in areas beyond trade.
- This Agreement creates a global standard including the commitments on sustainable development resulting from Paris Climate Agreement, on cooperation to mitigate the climate change, on sustainability of food systems, on animal welfare.
- It will not only address the concerns of sustainability in trade but will also provide an important reference for the EU with other trading partners.
- The Agreement will contribute also to our food security, providing with facilitated access to alternative but high quality products that could be imported in case of any food crises would emerge in the EU.
- The Commission has negotiated the dairy products with particular care, knowing the sensitivities of our producers but also bearing in mind the competitiveness of the EU sector and that NZ is EU's only major competitor on global markets.
- The most sensitive products i.e. butter, milk powders, whey concentrates and cheeses were not liberalised. Instead, only very limited access to the EU market was granted under the form of Tariff rate quotas, which volumes are calibrated to represent tiny percentage of EU's consumption, with in-quota rates designed to preserve a level playing field for EU producers.
- During the whole process of negotiations, the Commission has heard the voice of our dairy industry – for example when the whey high protein concentrates were isolated as more sensitive than other whey products.
- This strategy has proven its merits: the outcome has fallen short of the NZ dairy sector expectations. Nevertheless, the openings made are commercially meaningful also for NZ.
- This FTA is part of the general EU trade policy, where in most previous agreements the EU had offensive interests on dairy and managed to create market opportunities for the EU sector to cumulatively increase its dairy exports by 1 billion euro in 2030.

- New Zealand is the EU's global competitor on dairy, but there is only one New Zealand in the world and we have kept EU's trade policy agenda operational, while offering only very limited openings of our market.
- The Agreement will provide unprecedented protection of the EU GIs, including cheeses in New Zealand territory, an achievement that was not obvious at the beginning of the negotiations. New Zealand will extend its GI law to cover also foodstuffs and to include our cheeses.
- Within less than 10 years from the entry into force of this Agreement, the use of names as Feta, Gorgonzola, Roquefort, etc. will only be allowed for genuine EU products. The use of Parmesan and Gruyère will be grandfathered based on strict inventory of the NZ users and limitations and disciplines for them to be respected.
- During the negotiations, NZ expressed its intention to develop its own cheese GIs; if this materialises the EU would gain globally another partner interested in support of the GIs system.

Australia

- 12 rounds of EU-AUS FTA negotiations have taken place so far.
- Round 13 will take place in mid-October, where a 2nd exchange of offers on market access for goods will take place (after the first in October 2019).
- This exchange will not include any dairy tariff lines neither from the EU nor from the AUS side.
- These will be left to later stages of negotiations due to AUS unwillingness to improve its offer on cheeses.
- AUS is largely defensive on dairy in these negotiations, and the EU more offensive – AUS interesting and growing market for EU dairy exports (notably cheese).
- GI protection and full liberalisation on dairy are seen as substantial threats by the AUS dairy sector, which is against the FTA.
- Discussions will continue in the coming months.
- The target is to conclude negotiations during the next year of 2023, but “content prevails over speed”.

12. AOB

EDA highlighted the importance of considering to set up the CDG MILK meetings in person.

4. List of participants

See annex II

(e-signed)
Michael SCANNELL

Annex I

- **EDA position in relation to some topics discussed:**

Market situation and short-term outlook: EDA thanked the commission for the concise and insightful presentations. On the questions raised by AGRI A2 (outlook), EDA does not see any possibility for other EU countries to compensate for the (structurally) lower milk production in France and Germany. New feeding strategies were already implemented at farm level (less concentrated feed), which is also one reason for the lower fat and protein content in EU milk over the past months; under today's economic conditions (feed prices) the increase in milk yield per cow will not increase.

Review of EU marketing standards for agricultural products: EDA pointed out that the processed cheese industry in Europe is working on an EU standard for processed cheese. While there is a Codex standard for cheese, there is no international or European standard for processed cheese. EDA voiced that they don't see the added value of the idea to include all EU dairy standards / product definitions into the sCMO.

Food labelling: EDA underlined that the proposed way forward in the 'date marking' dossier were very much appreciated. On the other hand, he questioned the approach on mandatory national origin labelling of the EU COM as explained by (DG SANTE): if the concern of the EU COM is really to safeguard the Single Market, endangered by national origin labelling initiatives, the EU COM should stop these initiatives, as did the ECJ (C-485/18) with rather clear words, instead of putting to a end the Single Market for milk & dairy. He also questioned the very selective choice of food categories for the EU COM initiative and the overall goal of origin labelling, that was presented under the heading 'environmental objectives' in the ppt. EDA pointed out that the EU COM were – in a July 2022 meeting – not in a position to name one single scientific evidence for any environmental benefits of a mandatory national origin labelling scheme.

Since DG SANTE unit in charge has now 'human nutrition' in its name, EDA expressed its hopes that any FOP NUT labelling proposal of the EU COM would encompass the overall nutritional value of a foodstuff with its blend of macro- and micronutrients. A voluntary approach would be the most appropriate.

Revision of the Industrial Emissions Directive (IED): EDA expressed its gratitude to DG ENVI for having used the term 'farm' in his ppt, while the IED proposal has chosen the term 'agro-industrial establishment' for a family business size dairy farm. EDA echoed the discussion of the week before within the EP and asked for a revision of the thresholds. The dairy sector prefers by far to focus on 'on farm solutions' than on administrative compliance with the IED. Especially in dairy, where the diversity of farm management types within a region, a country and within our Union is extremely high – it will be close to impossible to mirror this diversity in the operational rules of the IED. EDA also underlined that the proposed IED (entering into force in 2029) reduction goals can be reached earlier, if farmers are empowered to spend their time, energy and money on farm specific solutions.

Discussion Review of the geographical indications (GIs) systems – state of play:

EDA suggested to use the opening of the EU trade mark regulation 2017/1001, necessary for the process of the revision of the GI legislation, to include the principle of the protection of dairy terms (annex VII, part III of Reg 1308/2013, strengthened by the ECJ (C-422/16) and confirmed by the new CAP) in the list of 'absolute grounds of refusal' of article 7 of Reg 2017/1001.

- **CELCAA/Eurolait interventions on ORIGIN LABELING**

CELCAA/Eurolait has strong reservations about introducing mandatory country of origin labelling for milk and dairy products in any form. It appears that principles of good regulatory practice, the protection of the single market and various other elements of EU law are being ignored in this instance. A vague perception of increasing demand from consumers for such information is not sufficient for justifying a legal measure. There must be a legitimate interest beyond a sense of patriotic duty or ethnocentrism. Legal measures must be proportionate, striking a balance between different interests, but the negative consequences for well-established supply chains and the businesses involved do not seem to be given any notice.

The Commission argues that harmonisation at European level is required to avoid fragmentation of the single market. However, it is the Commission's lack of response to the numerous illegal national measures (see ECJ ruling in the Lactalis case) that has created this fragmentation in the first place.

CELCAA/Eurolait further questions whether the proposed Country of Origin Labelling initiative meet any of the objectives of the three pillars of sustainability. In addition to higher costs due to the need for segregation and higher supply chain costs, there is also a serious risk of increasing food waste. On the economic side, the initiative will inevitably lead to higher compliance costs which will have to be borne by the consumer. This is important as there are no studies which indicate that Country of Origin Labelling is a positive purchasing driver for consumers. Consumers when prompted may say that they want more information, but there is a difference between what is "nice to have" in a survey and how consumers react when purchasing. Studies have shown that consumers will consistently base their purchasing decisions on factors such as price/value and quality – origin of the product is much further down the list of purchasing drivers. There is also no link between mandatory CoOL and environmental sustainability. Transport emissions only account for a minor share of a dairy product's climate footprint, the production methods and conditions playing a much bigger role. In addition, a national product can often be transported over a longer distance than a "foreign" product. A mandatory scheme will entail higher costs for separate collection, storing, processing, packaging, labelling, cleaning and less flexibility in sourcing by renationalization of supply chains as well as lower efficiency overall. It will make the dairy sector less resilient, contrary to the lessons learned from the Covid pandemic and from the effects of Russia's war in Ukraine.

Our opposition to mandatory CoOI is not about hiding the origin. The information is already provided on a voluntary basis for a very large selection of dairy products across the EU. We are opposed to labelling provisions dictating the sourcing practices of operators, limiting their choice within the single market and increasing costs for no additional value. Milk is different from other agricultural products in that it is processed into an almost endless variety of dairy products and ingredients and all these products have their own supply chains. This uniqueness and complexity of dairy products must be adequately considered and the argument that this is already in place for other sectors is not acceptable in this context.

We appreciated DG SANTE's presence at the meeting and will continue the (at times challenging) discussion on this subject.

Annex II

List of participants– Minutes
Meeting of the CDG Milk
3rd October 2022

ORGANISATION
European agri-cooperatives (COGECA)
European Coordination Via Campesina (ECVC)
European Council of Young farmers (CEJA)
European Environmental Bureau (EEB)
European farmers (COPA)
European Liaison Committee for Agriculture and agri-food trade (CELCAA)
European Milk Board (EMB)
FoodDrinkEurope (FoodDrinkEurope)
IFOAM Organics Europe
Eurocommerce

Ad hoc expert

M. Maks Fasteyev - Project Partner Infagro Ltd
--