Brussels, 18 November 2019

FINAL MINUTES

Meeting of the Civil Dialogue Group Milk

Date: 4-10-19

Chair: Mr Michel Nalet (FoodDrinkEurope, outgoing Chair) and Ms Anne Randles (CELCAA, elected Chair)

Organisations present: all Organisations were present, except the European Environmental Bureau (EEB) and the European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT).

1. Approval of the agenda

The agenda and the minutes of the previous meeting in February 2019 were approved without changes.

2. Nature of the meeting

The meeting was non-public.

3. List of points discussed

3.1. Election of chairperson and vice-chairperson

The candidates were:

Anne Randles – CELCAA – Chair

Michel Nalet – FDE – Vice chair

Karsten Schmal – COPA COGECA – Vice chair

All candidates were elected by a vast majority of experts with 0 votes against and 4 abstentions.

Taking the chair, Anne Randles thanked Michel Nalet for his excellent chairmanship. She hopes to encourage as much open and constructive debate as possible. The group is working on issues that are very important for the dairy sector and having a diversity of views is essential in all debates.

3.2.Trade

a) FTA negotiations and implementation - Luis Carazo Jiminez, DG AGRI A3

Canada

The CETA agricultural dialogue took place in Canada the last week of September. The tone of the discussion was very positive on both sides. This dialogue was marked by the upcoming elections in Canada, so the current government cannot make any decisions.

There have now been two years of implementation of CETA. The quotas that were granted to the EU have been (in principle) fully used. This is not the case for the Canadian side – very low use of the beef quota for exporting to the EU. Canada feels that in spite of being granted access to EU market for beef, there is frustration because only 2-3% is being filled. There is also a quota for Canadian durum wheat – about a year ago the export of Canadian durum wheat fell off, partly due to market conditions.

As far as dairy is concerned, there are indications (as we knew already) that the class 7 system will be changed. The Canadians did not give any additional info on this. The cheese quota discussion took an hour during which COM passed on info gathered from stakeholders. This issue is very sensitive for the Canadian authorities. They keep claiming that the system they have put in place is in compliance with CETA. Most of COM's criticism was focused on pooling – the Canadians have no intention to get rid of pooling for now. They do however agree on some improvements to the system by providing additional disciplines for licence transfers, limiting the abusive use of transfers.

COM understands that the size (in terms of percentage) of the pools allocated to the different groups of importers will remain the same.

EDA – thanks COM for their work and for taking on stakeholders' comments. Is the durum wheat issue more connected to national law, which provides for country of origin labelling for wheat and pasta?

COM – this is the Canadian's claim, not the EU claim.

Eucolait – thanks COM for advocating for the EU sector; it is disappointing that the pooling system is maintained for the time being, but encouraging that they will look at the excessive rate of transfers. Good that the pooling system will not get 'worse' (i.e. higher % of the quota will not be given to processors).

COPA COGECA – CETA is not negative for milk, but this could be the case in the Mercosur and Oceania agreements. It makes it very difficult to look at different agri-sectors separately. It would be good to have a broad overarching approach of the EU's strategy for agriculture in trade agreements.

COM – currently preparing an update of the cumulative study, that looks at the different EPAs and FTAs. This should be available at the end of 2020. The Canadian agri-food trade alliance have a statement on the increased trade deficit for Canada.

COPA COGECA – met with Canadian colleagues last week. Canadian government has put in place funds to counteract the effect of CETA on dairy producers. We should look in the EU at the sectors that could be losing out because of these trade agreements. A global approach is required.

Mercosur

State of play and outcomes for market access for dairy and GIs.

Political agreement was reached on 20 June, exactly 20 years after the mandate to start negotiations with Mercosur was issued. COM sees the outcome as a balanced deal with strong safeguards for EU sensitive products. There are also solid gains for offensive sectors, including dairy. Mercosur is important – it is an agreement with a big trade area – in terms of trade value but also geopolitically. SPS measures allows the EU influence how trade is carried out. Mercosur opportunities – reciprocal access for cheese and powders. Tariff cuts for butter and yoghurt. Mutual exclusion of whey – situation remains as it is now.

Cheese – reciprocal duty free TRQ for all of 0406, excluding fresh mozzarella. 30,000 tonnes phased in over 10 years, simultaneously the in- quota duty will be phased out over 10 years.

Powders – same structure as for cheese – SMP and WMP. 10,000 tonnes, phased out in-quota duty over 10 years.

Infant formula – 5,000 tonnes.

Partial liberalisation for butter and yoghurt. Reciprocal tariff cut at entry into force for butter of 30%. For yoghurt, -50%.

Full liberalisation for lactose, dairy spreads, ice cream and caseins.

The texts of the agreement are published on the DG Trade website. The only outstanding text is the tariff elimination and schedule. Final text is complex – 100s of pages – and needs to reflect exactly what was offered by both sides. Hopefully the final tariff schedule will be available before the end of 2019.

GIs – complex discussions, as Mercosur has a strong European heritage. Mercosur will offer protection for 350 names, the EU will protect 220 Mercosur names. Some exceptions – grandfathering (some Mercosur products using names can continue to do so if they were using it before period of opposition) – Parmigiano Reggiano, Gruyère, Fontina, Gorgonzola, Queso Manchego, Grana Padano.

Phase out of name use for another series of cheeses – full info in the intellectual property chapter of the agreement, available on the DG Trade website.

State of play – conclusion of the agreement – Council with consent of the European Parliament. COM will now do legal scrubbing and translation. This is expected to take until April 2020. Preparation of presentation of agreement to Council and European Parliament – this will require an inter-service consultation. European Parliament vote expected mid-2021. If provisional application is opted for, this would be end of 2021 at the earliest. Extremely tentative timeline.

Eucolait – re GIs, Italian origin names could not be completely eliminated. Italian products shouldn't be competing with products with a logo or a flag etc. There needs to be an agreement that any resonance with European products (except for products already on the market) need to be avoided.

COM response – terms are clear for grandfathering names. In other aspects, if there are names that are to be phased out, the producer has to stop using these terms. The agreement is clear and solid.

EDA – re SPS chapter, can COM expand on whether there will be changes to the present situation? Do Mercosur countries treat all MS the same way? If one Mercosur country accepts a MS factory, do the other Mercosur countries do likewise?

COM – specific chapter is already up on DG Trade website. No reduction of EU standards. Mercosur will accept the EU as a single entity. SPS chapter allows for export facilitation procedures and simplification of SPS procedures.

GIs – generic names is the other side of this issue. Switzerland is looking to have the name 'Emmentaler' protected on three Mercosur markets (info point for COM).

COM – is aware of different movements. Must remain vigilant.

ECVC – 50% of the meat in the EU comes from ex-dairy cows. Is the EU looking out for farmers' livelihood? On a number of points, Mercosur is not tenable – co-operating with extreme right wing parties, local populations not having enough to eat.

COM – Trade with Mercosur is already happening in different sectors. In the chapter on trade and sustainable development, EU will have leverage.

EDA – will there be a central quota regime? Will it be divided upfront amongst the Mercosur members? Who will get the benefit?

COM – not specific quotas for different MS. Quota management/distribution is up to the Mercosur countries to decide but the dairy products should be managed on a first come, first served basis.

COPA COGECA – Mercosur trade deal sparked huge concern in Ireland – beef strike. 90% of Irish agri food is exported.

US tariff hikes – Airbus case

The list was published on 2 October. Unfortunately agricultural sectors are targeted in different sections on the list. COM is analysing the list which is not final list and may be reviewed before its entry into force on 18 October. Tariffs are covered by the WTO ruling and are therefore legal, so there is nothing the EU can do to legally challenge it. The Boeing case award specifying the amount of allowed EU retaliation will be known in 6 months or so. The EU is looking to enter into further engagement with US partners and at the 13 October Agri council ministers will discuss this further.

Providing for an arrangement for the hormone beef quota – setting aside a certain volume for US origin hormone beef. Agreement has been signed – consent of the European

Parliament is pending. A sign of goodwill from the EU, but it is unavoidable that (politically) this will be mixed in with the Airbus tariffs.

COPA COGECA – the reason is again political. Why are the agri ministers attempting to deal with a political issue? It should be a matter for the heads of state and government; we cannot hit back to trade sanctions imposed on the US – it didn't work with Russia in 2013/14.

Eucolait – the list was announced with an implementation date of 18 October. If something is in transit at the moment, can it be proven that it went into transit beforehand or will it be levied at the border?

Origin – certain products from certain MS were excluded – if a French product is shipped from Rotterdam what 'origin' is considered as relevant by the US authorities?

COPA COGECA – an additional 25% on butter. 86% of EU butter going to the US is from Ireland. A very agricultural country. Brexit is also looming. COM needs to be looking at everything with respect to supports. European farmers are also still paying for the Russian embargo.

EDA – it is not acceptable that agrifood is dragged into a dispute about aircraft. Very serious consequences for our sector. We are very worried about the knock-on effects.

COM – will not enter into a political discussion. We do not like it, but the US has the right to apply tariffs on the sectors as they see fit.

State of play – Oceania negotiations, Tomasz May – DG AGRI A4

Mandates for negotiations with Australia and NZ are publicly available. NZ negotiations are a bit more advanced – 5 rounds as of July 2019.

Next Australia round – next week. Next NZ round – end of November (tentative).

Not at the stage to conclude with NZ – they are looking for a better offer. NZ have frozen the GI discussions and did not send agri negotiators during round 5. Next summer there are elections in NZ.

Australia – end of negotiations tentatively scheduled for the end of 2020.

COPA COGECA – in the talks with NZ, dairy is sensitive. Is this also the case for Australia? Important because there is fully free trade between Australia and NZ.

COM- Australia is the 6th destination for EU dairy products. If tariffs were to disappear, it would be very profitable for EU cheeses (currently 15% tariff on EU cheese). Australia published a GI list in August – including 58 dairy names.

Eucolait – we do not have anything to fear re: flood of imports from Australia. It is a major export destination. Also they are struggling to maintain milk production. As regards exports diverted via Australia from NZ to the EU, the EU has strict rules of origin in place for dairy imports which would prevent this from happening.

EDA – until when is the dairy sector excluded from NZ negotiations?

COM – has no plans to make new offer to NZ for now

b) Brexit – update from Michael Scannell, Director, Dir. G

A situation of extreme uncertainty. 1 November is looming – solid prospect of a hard Brexit if an agreement is not struck in the next few weeks.

New proposal to replace the backstop – initial COM assessment is that there are still significant gaps. Pivotal moment will be the European Council meeting on 17-18 October.

Preparations are needed – if there is an agreement, there will almost certainly be a transitional period. If there is no agreement, the UK will be a third country like any other from day 1. Full WTO tariffs, full SPS checks etc. for UK products. UK is faced with an existential threat – they will most likely not deviate from current SPS standards for at least 9 months. Most trade is taking place through the channel tunnel – rudimentary checks only in the immediate aftermath of Brexit.

How do we deal with consequences? Huge budgetary challenge for the EU. EU hopes to bridge the cap with increased contributions from MS and cut backs in EU expenditure. There will be inevitably be trade disruptions – on dairy the EU27 enjoys a substantial trade surplus. A hard Brexit will have a knock on in prices and trade for the EU-27. The sCMO regulation provides a range of instruments to address market disturbances. All possibilities remain open in the event of a no-deal Brexit. COM has to continue to monitor the situation and hope that a no deal can be averted. The primary responsibility however lies with the UK itself. COM is looking for info from the Member States – what's happening on the ground.

Eucolait – the tariff situation is going to be very asymmetric in the event of a no deal Brexit. The UK's temporary tariff schedule provides that 87% of all goods would come into the UK tariff free, with exceptions for some agri food lines and some other products. The tariffs in the UK schedule are less than the bound MFN rate. UK industry is waiting for indications from the UK government as to when the next version of the schedule will be published. Serious disruption for the island of Ireland.

EDA – Huge traffic going through Calais. It's getting more and more difficult to find storage space in the UK. Everyone is exhausted by Brexit talk and preparation and uncertainty. We are doing our best to be prepared but people are leaving these pre-Brexit meetings in despair. Hopefully following the next summit there will be some clarity. In Ireland, it is impossible to prepare when there is no confirmation as to what will happen on the island of Ireland.

COPA COGECA – How will the EU Stability Fund be used for the dairy sector in case of a "hard" Brexit?

COM – the magnitude of this cannot be overstated. The Irish border issue could be disastrous for NI producers. Some measures can be taken – registering for customs checks etc.

Brexit related fund - €12 billion shortfall in the EU budget.

CAP accounts for 35% of EU budget. COM has to come up with a solution for supporting farmers in the event of market disturbances – there is a legal obligation for this in the treaty.

UK tariff schedule – we are working from the assumption that this will stay the same but must continue to monitor this.

c) Market access issues – update by Alexander Anton, Secretary General, EDA

Nigeria – plans for companies to integrate local producers. Currently restrictions on access to foreign exchange for Nigerian customers is an issue.

Indonesia – looming tariff hikes for dairy (up to 25%) linked to anti subsidy duties on biodiesel imposed by the EU.

USA tariffs – victim number 1 is Ireland, already the weakest link due to upcoming Brexit and country of incumbent trade commissioner.

Tunisia – 94% self-sufficient. Not a massive market for EU dairy. Import restrictions imposed in November 2018 have been cancelled.

FTAs – trade of EU dairy contributes strongly to the positive trade balance for EU agri-food.

Eucolait – on Indonesia, we don't really know what is happening but the tariffs and potential blocking of import permits is a permanent threat due to the EU anti-subsidy duties on bio-diesel. Broader issue of Indonesia and Malaysia making imports of EU dairy products difficult in retaliation against EU biofuel policy which may lead to a gradual phasing out of palm oil imports from these countries.

3.3.Milk market situation, including short term outlook

Milk Market situation, Carlos Martin Ovilo – DG AGRI G3

The average price for deliveries (cumulated for the first seven months of the year) is 34,2c/kg – that is 0,9 c more than last year.The milk price combined with the slight increase in deliveries means that the total value of EU milk production value (Jan-July 2019) is the highest for the last 5 years.

Cows' milk deliveries peaked in May and slightly exceed last year's levels in July for the first time this year. IE, UK, PL have been the main countries increasing milk deliveries. Globally, milk volumes have also been declining over the past months and were in July on par with 2018. The general picture is therefore quite table. Milk prices have also been fairly stable, especially over the last 3 months. A smaller than usual seasonal increase is visible this autumn.

In terms of the product mix, butter and SMP production has slightly increased so far this year, while it is down for cheese, WMP and fresh products.

Butter quotations have fallen 16% since the beginning of this year. SMP quotations on the contrary have seen a big increase since the beginning of 2019, while cheese prices are quite stable. Globally, the EU pricing has been quite competitive. The upward trend of SMP prices can also be seen in other regions, not just the EU.

New graph – FAO dairy price index (global). At the moment, we are sitting at about 5% above the global 5 year average.

In terms of EU exports, we have seen a 9,3% increase in butter+butteroil exports this year (January – July) thanks to competitive pricing (butter only exports have increased by 19%). More was being exported to the US (probably in part down to the then looming tariffs), China and Japan. A 2,1% increase in cheese exports was recorded during the same period. Cheese is more stable than any other product. A lot more went to the US, but also more to Japan, South Korea and Saudi Arabia. WMP production and exports are both on the way down. If we look at the value of exports in € terms, cheese makes up the largest part of this.

Globally, NZ have increased their exports of WMP, cheese and SMP. Butter exports are down – China has decreased their butter imports by 34% this year but increased their WMP imports by 27%. US butter exports are also down 33%. Exports from US to China of SMP are down significantly. EU is now the origin for 33% of Chinese SMP imports. Belarus butter exports are down by 11%, while Ukraine butter exports are down 40% (Ukraine figure not on graph).

Russia remains the world's biggest importer of butter and the second biggest importer of cheese – the EU is still locked out of this market.

Stocks are relatively high (information from the report of the last MMO meeting which took place in September). Global demand is strong but this could change in H2 2019 because of the stock situation in the destination countries.

Per capita consumption of drinking milk and yoghurt is falling. Butter, cheese and cream consumption are holding strong. Organic product consumption is growing.

Overall market fundamentals are good.

Short term outlook, Andrea Capkovicova - AGRI C2

The short term outlook is to be published today. UK tariffs in case of a hard Brexit are not taken into account in this report.

Drought over the summer impacted on production of silage in particular in FR, DE and PL. Overall, the dairy herd in the EU is in decline and with some further yield growth, milk production increases are expected to be moderate with +0,5% in 2019 and 0,7% in 2020. Milk is currently richer in solids however.

SMP exports will reach a record level this year but are likely to fall in 2020 as a result of price recovery and lower availability.

Butter production has increased this year and about 25% of the additional production has gone into storage. EU is now more competitive on the world market as can be seen in the export figures.

WMP production will decline by some 5% this year as will will exports (-15%) but domestic use in chocolate is set to increase.

The additional cheese production is expected to be shipped abroad (exports +2%) as domestic consumption is likely to stay stable.

In the fresh products p segment, the decline in drinking milk consumption is expected to slow down (from -2% 2018 to -1% this year). A strong segmentation of the drinking milk category is ongoing (organic, hay milk etc.)

EDA – fairly stable market situation. This of course does not mean that this will stay the same forever, there are threats and opportunities coming down the line. Increased flows of EU product into the world market – we are doing well in terms of butter exports but this is dependent on the underlying demand for butter.

COPA COGECA –export prospects are looking reasonably good. Production is stable. The prices paid to producers is stable. Why are the prices to producers not better, given that the market is thriving? Production costs are increasing. Medium and long term stability is ensured through contracts. People in the industry need to have a clearer long term vision as regards production and prices. Competitiveness is driven to a large extent by the role played by the European farmers and this is not reflected in the prices. COM should consider the possibility of a survey to (young) farmers to see if they are willing to stay in farming, comparing their quality of life with that of the average EU citizen. The sector needs hope and reliability in the long term.

ECVC – a young person looking to start farming needs support. The cost of production price is key. Without assistance, it is often not viable and we are seeing a decline of interest in the sector.

3.4. State of play of the revision of marketing standards, Zulema Olivan Tomas - AGRI C4

Evaluation of the marketing standards contained in the CMOs secondary legislation and the breakfast directives

Public consultation is currently open until 14 October.

Eucolait – marketing standards are very useful and create a level playing field amongst Member States. Casein directive is also included in the scope of this. The marketing standards for dairy should be maintained in their current form.

3.5. State of play of EU TRQ management reform, Letizia Gerli - AGRI G1

Draft delegated and implementing regulations were published online during July and August. No particular major changes for dairy.

Implementing regulation will be voted on in committee on 10 October. Then delegated act will be sent to the European Parliament. Reasonable expectation that publication of the acts will take place between February and April 2020. New rules will be applicable from 1 January 2021.

20 dairy TRQs are concerned. 3 export tariff quotas and 17 import tariff quotas.

3.6.Market transparency, Marcelo Lima – Unit G1

Based on one of the recommendations of the Agricultural Markets Taskforce.

Voted in the Horizontal sCMO committee in September. Approved by college of Commissioners on 1 October. Legal text will be published in October 2019 and will enter into force on 1 January 2021.

Making relevant market information available for all market participants. Very little information available at the moment from the side of processors and retailers.

Three sectors were identified as being in particular need of more transparency by the Agricultural Markets Taskforce – meat, fruit and vegetables and milk. More information is becoming more important for farmers. Markets are becoming more complex.

Selling prices are included, but so are buying prices – buying prices of retailers and of the food processing industry for a variety of products.

Price reporting is only obligatory for Member States that are responsible for producing or using more than 2% of the total EU corresponding production or use (or 4% in the case of organic production).

COPA COGECA – different qualities in products – not just organic vs conventional. This can cause distortions to appear in reported prices. It should be considered what are we achieving with this – not just having more accurate information but are we also bringing balance to the food chain?

COM – it's always better to work with facts – solid market information. Having more price data can give a clearer view and a sense of direction– i.e. when prices fall, do retail prices also fall at the same time? However, data doesn't give qualitative information and cannot 'diagnose' an unfair trading practice.

EDA – there is a precedent for an observatory on prices and margins in France which is not very helpful for operators

COM – many of the functions of the French observatory are different to that which is set out in the new EU legislation. French observatory looks at structures, the EU rules look at short-term market operation data. Margins and costs are not being included in the new rules, looking at prices and volumes is more cost effective.

Chair – concerns about commercial sensitivity. Also a concern about potentially adding to market volatility.

3.7.CAP post 2020 – state of play, Kathrin Rudolf – AGRI C1

Update on the status of affairs on the Commission proposals: Council discussions are continuing under Finnish Presidency. Environmental architecture, delivery model (performance based), budget – main outstanding issues. Work in the European Parliament is also continuing – looking at the way forward. ENVI committee also has a strong interest in this dossier. Commission continuous to favour fast progress.

The fact that there are a number of geopolitical and weather driven events is no news. There are instruments in the CAP to address risks and crises linked to external events.

When the budget and CAP proposals were drawn up, Brexit was already known. On the one hand, Brexit and the smaller budget for CAP proposed are important context factors; on the other, it is important not to lose out of sight and seriously debate what can be done with the proposed budget for the future of CAP.

COPA COGECA – the picture seems to be very complicated. Clarification needed on a transitional phase, ahead of a new CAP potentially applicable from 2023. Stability is needed to have a medium term vision on the CAP.

COM – while everything is not entirely clear, it is certainly clearer than it was a few months ago. With respect to the pace of the reform, among others an impact assessment has been done and there is a report showing why it is needed. Among others there were four clear demands for the futuer: simplification, better targeting, more focus on results and a common framework. Modernisation is also needed, because of technological developments.

COPA COGECA – serious budget cuts. But at the same time, there is an increased focus on the environment. Why can't agriculture take funds from the environmental policy?

COM – agriculture has an important role to play in delivering on climate and environment. We also know that there is the need for the sector itself. It is important to note that the CAP offers both mandatory requirements and support for farmers to move towards more sustainable production techniques.

ECVC – falling populations in rural zones – has this aspect been taken into account?

COM – in the mandate of the next Commission a long-term vision for rural areas is announced.

4. Conclusions/recommendations/opinions

On Canada, the CDG supports the efforts of the Commission in improving access to the cheese quota and addressing other Canadian dairy policy issues.

No common position amongst CDG members with respect to the Mercosur agreement and the Australia and New Zealand negotiations.

On the US tariff hikes, the CDG supports the efforts of the Commission to avert the levying of tariff on dairy and objects to dairy being impacted by a dispute concerning aircraft.

The CDG shares the significant concern of the Commission with respect to Brexit. In the event of market disturbances arising from Brexit, producers will have to be offered appropriate assistance.

Following the EDA presentation on market access issues, the emerging situation in Indonesia (and Malaysia) is still unclear and will need to be monitored continuously.

With respect to the market situation and the short term dairy market outlook, there are good fundamentals and the market is in a fairly balanced situation, however there are uncertain factors at play (e.g. the geopolitical situation).

With respect to the market transparency initiative, there are concerns about some categories of information providing a potentially distorted picture (fuelling volatility in the market) and potentially being commercially sensitive.

As an AOB point, COPA COGECA informed about the 'Oatly' campaign which is currently ongoing in various MS, going against the traditional dairy products.

5. Next steps

The next round of negotiations with Australia will take place in October. The next round of negotiations with New Zealand will take place in November.

With respect to the reform of the CAP, talks are continuing and the Finnish presidency intends on making substantial progress before the end of its mandate.

6. Next meeting

Date of next meeting – end of February/early March.

List of participants– Minutes

Meeting of the Civil Dialogue Group Milk

Date: 4-10-19

MEMBER ORGANISATION	NUMBER OF EXPERTS
EuroCommerce	1
Eurogroup for Animals	1
European agri-cooperatives (COGECA)	10
European Coordination Via Campesina (ECVC)	2
European Council of Young farmers (CEJA)	3
European farmers (COPA)	10
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)	6
International Federation of Organic Agriculture Movements EU Regional Group (IFOAM EU Group)	1