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## **FINAL MINUTES**

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

**5 March 2020**

Chair: **Ms Anne Randles (CELCAA)**

Organisations present: all Organisations were present, except EuroCommerce, Eurogroup for Animals and International Federation of Organic Agriculture Movements EU Regional Group (IFOAM EU Group).

#### **1. Approval of the agenda**

#### **2. Nature of the meeting**

The meeting was **non-public**.

#### **3. List of points discussed**

##### **3.1. Milk market situation and short term outlook**

DG AGRI G3 – Krystian KECIEK

DG AGRI C.2 - Andrea CAPKOVICOVA

##### **3.1.1 Milk market situation:**

The EC representative gave a presentation on current milk market situation:

- 0,4% increase in EU-27 milk deliveries in 2019. Average price was higher than in 2018 but lower than in 2017.
- December 2019 – increase in EU-27 production of 1.5% vs same period in 2018. Average EU milk price in December was 35.6c/kg. Milk price evolution in 2019 was rather flat, just 5% difference between the highest and the lowest monthly price during 2019.
- 2019 full year picture – CY and IE saw the biggest increases in milk deliveries. The top 10 Member States together account for 78% of EU milk collection. Exports figures were very positive in 2019. EU+UK exports of butter, cheeses and SMP increased by 41%, 6% and 18% respectively.
- December 2019 - Butter exports were up 96%, even to the US (+27%) with the additional tariffs imposed (Airbus tariffs in place since mid- October). Exports of cheese were also up by 12% in December.

- Butter prices decreased first half of 2019 and then stabilized. SMP and WMP prices were up in 2019. In 2019, 40% of EU WMP production was exported. For SMP, it was over 60%.
- In terms of world trade in 2019, Japan was number 1 importer of cheese, followed by Russia and the US. China was number 1 for WMP. Russia was the number 1 importer of butter and butteroil. NZ was the biggest exporter of butter and butteroil, WMP followed by the EU+UK. The EU+UK was the biggest exporter of SMP and cheeses. With respect to fat-filled powder (FFP), the dedicated CN code only applies from the beginning of 2020. Up until now there was no reliable way to see what was happening in the market with that product.

### **3.1.2 Short term outlook:**

Dairy herd developments in 2019 – overall EU herd is down by 1.2% in 2019 (EU 27). Nonetheless, overall yield is up 1.8%. Both milk fat and protein are up in the milk delivered and produced, in particular in IE, BE, ES and PL.

Milk valorisation – maximising the use of the fat and protein available: Cheese, butter and whey offer the best return when compared with other uses of fat and protein.

Potential for 2% growth in milk production in Q1 2020. In Q2, potential for 0,5% growth. +0,1% is possible in Q3 and Q4. This is contingent on normal weather conditions and sustained demand for dairy products.

Challenges and opportunities for the EU dairy sector in the short term – growth in production in the US, limited increases in NZ, Chinese demand (increases in WMP imports of 29% and SMP imports of 23% in 2018/19, which has resulted in stock building), corona virus restrictions. US tariffs (Airbus) – remains to be seen what will happen with contracts which will be concluded this year.

EU market – more cheese will be produced in the future (factors including the role of cheese in a meat-free diet). Butter – good return on butter vs other uses of dairy fat.

SMP – low public stocks and the price has recovered. SMP is used in FFP (remains to be seen how this will develop in 2020). WMP production is down, (lower exports). Drinking milk and yoghurt consumption are down, but there are new functional products which use fresh milk. Cream use is also up.

Comments:

We are still in the early days of the corona virus, hard to know what the overall impact will be in terms of trade. Corona is a challenge but the last few years have also been difficult for a number of reasons. Corona is outside of anyone's control. Demand that is lost as a result of the corona virus will not be compensated for later. Stock building at the end of 2019 – unlikely to be high demand from China in the coming months.

Logistically, capacity in the Chinese ports were down significantly but the situation is improving now. With respect to the US tariffs, it has hit cheese exports (-15% in Q4) and butter (-24% in Q4). Irish farmers have felt the brunt of the tariffs especially, 80% of EU butter going to the US is from Ireland. There was a certain amount of stock building prior to 18 October. With respect to new contracts, it is challenging because the tariffs have to be absorbed by someone. Growth in Japan has been promising since the agreement entered into force last year. FFP exports will be affected by the Nigerian import restrictions (in place since

11 February). With respect to the future relationship with the EU, there is hope for a positive outcome.

2020 will not be like last year. 2020 started stable. More cows and milk in NL, but phosphate restrictions means that there will not be phenomenal growth. Higher prices have led to an improvement in supply. Oceanian supply is down but South America has increased its output a little.

Global production is flat. Do not expect overproduction for 2020. Coronavirus should not be a reason for price decreases as 90% of our production is consumed internally. We need to have a balanced approach towards the market and keep the producer price dynamic. We can't do more with less. In Spain, following the demonstrations, production costs will be included in contracts.

The impact of US tariffs in combination with Brexit will be significant for Irish producers (50% of Irish cheese goes to UK).

Farmers in the EU will have to adapt to a lot of new rules in the future – this could see an increase in the number of farmers leaving the business.

## **3.2 Dairy policy**

### **3.2.1 CAP reform – state of play**

DG AGRI - Gregorio DAVILA DIAZ

#### **Co-decision state of play**

The CAP reform is not advancing as fast as COM would like. Council is still waiting for an MFF deal. COM first presented the CAP reform package in COMAGRI in June 2018. Rapporteurs in EP were confirmed in September 2018. The intention is for plenary adoption in June 2020. COM is somewhat sceptical that this target will be reached.

3 council presidencies have passed since the announcement of the package. We are currently on the 4<sup>th</sup> presidency (Croatian presidency). Each presidency has tweaked the package slightly. There will be a CAP plan setting a number of milestones as regards indicators. Eligibility of expenditure will be based on comparing what has been achieved vs what was planned. Difficult balance to strike between a workable plan and having benchmarks to ensure that plans are achieved. Under the rural development heading, plans for risk management will be included. All MS should have adequate crisis and risk management tools. COM would like other sectors to take on the structure of the fruit and vegetable sector to increase competitiveness and to promote modernisation. MS have opposed this somewhat – do not want to be limited to the producer organisation structure. COM does not consider this a relevant concern. EP has additional interventions under Rural Development – ‘women in rural areas’ and ‘installation of digital technologies’. Under direct payments, EP has put back a number of requirements for individual recipients. EP wants ring fencing of funds (60% for basic income support and 20% for eco schemes) – this will kill the strategic nature of the plan.

CAP is being criticised because the supports are not ending up in the right hands. Romanian presidency included clause that equal treatment is mandatory. But this is hard to enforce.

Even if there is a definition of a genuine farmer, if it is voluntary for the MS to apply it then it has little effect.

### **3.2.2 New market transparency regulation – product descriptions and other implementing measures**

DG AGRI G3 – Carlos MARTIN OVILO

From 2021:

There will be new price reporting categories – prices for cream, drinking milk, mozzarella cheese and FFP. COM has come up with coherent definitions of standardised and representative products, allowing for the collection and transmission of prices.

Final definitions have been decided on, following consultation with the Member States and stakeholders:

- Cream – big bags, 40% fat
- Mozzarella – limited to commodity, block mozzarella.
- Drinking milk – not an industrial product, MS will choose and report on the most representative type of product in their market.
- FFP – minimum 23% protein, powder form, 25kg bags

Reports on the price and production of raw milk and organic raw milk – by 25<sup>th</sup> of the month. In addition, fat and protein content of raw milk (in this case DG AGRI taking over data collection that is currently being done by Eurostat).

Comments:

National authorities have been very closely involved since the beginning. The buying prices of butter and cheese have yet to be discussed.

Given the consumer confusion on the products of vegetable origin but which use dairy terms, we should be careful with the classification of fat filled powder. COM replied that this is the case for both price/production notification and for the recently created CN code: in both cases Fat Filled Powders belong to a category ‘other products’, therefore not listed among dairy products.

FFP is a difficult name to translate in some languages, as the product does not exist in all Member States. COM remains very aware of the need to protect dairy terms.

### **3.2.3 Implementation of the EU school fruit, vegetables and milk scheme – latest developments**

DG AGRI G3 – Giulia MEDICO

MS had until 31 January 2020 to submit their report on the 2018/19 school year. Reports have not been published yet. COM invited MS to verify inconsistencies and fill gaps.

20 million children approximately are involved. €71 million (EU budget) were spent on school milk in 2018/19 compared with €62 million in the previous year. Plain milk, cheese, yoghurt and some milk based drinks were distributed.

Expenditure on school milk varies between Member States. Some countries spent less than half of their school milk budget, some between half and 75% and the majority 100%. Countries that spend at least half of their resources are entitled to get further funding.

Some examples of educational and information measures that accompany the supply of milk products in different MS were given: e.g. ‘milk station’ in Austria.

The Commission decision with the EU budget for the 2020/2021 school year is envisaged to be adopted by the end of March. It still includes the UK, which may continue to participate in 2020 according to the Withdrawal agreement and receive funding until 15 October 2020 (2020 budget year). The EU budget for school milk is EUR 104.9 million, bigger than the EUR 100 million earmarked as some countries transferred some of their funds from fruit and vegetables.

### **3.2.4 EU protein strategy – state of play**

DG AGRI G4 – Karel VAN BOMMEL

There are main market segments: conventional feed, premium feed (non GM and organic feed – driven by dairy) and food (there are good margins but it is still a niche market).

The EU feed protein balance sheet – the inclusion of roughage was a major development. Roughage accounts for 42% of plant protein. There was a plant protein seminar in Helsinki in November 2019, key concerns for the sector were discussed.

The future CAP will also have an impact on the future of protein crops. Allowing for breeding of stable varieties and ensuring a farm income will be very important.

Comments:

Animal production is singled out in the F2F. Novel feed materials (such as food from the oceans) are also included – will these be included in the next protein balance sheet?

EU needs to be ambitious on its protein autonomy, targeting a high level of self-sufficiency. Coherence should be achieved with the biofuels regulation. It is unfair to blame the EU animal production for the deforestation in Amazon as EU is importing protein to the extent of around ¼ of what China imports from South America.

### **3.2.5 Green Deal and Farm to Fork Strategy – overview and potential consequences for dairy**

DG AGRI C1 - Gijs SCHILTHUIS

The Green Deal and sustainability is the top priority of the new Commission. Communication on the green deal published on 11 December 2019. Green Deal is a very wide strategy that goes beyond food and farming and covers all sectors of the economy. Climate law was published on 4 March.

Sustainable transformation of society is ongoing. For example, Europe is the only continent that has seen a reduction in GHG emission from agriculture since 1990. But reduction of GHG stagnated in recent years. Several other environmental indicators are not improving (e.g. biodiversity). There is a need for transformative change through policy and technology. The Green Deal embodies change ('man on the moon' moment) to create a sustainable society.

Farm to Fork is due to be published at the end of March. It will be a plan with specific actions to be implemented in the next 5 years and it will cover all of the food supply chain.

For a Green Deal for agriculture and rural areas the CAP 'strategic plans' are a must. Climate strategies need to be linked to CAP policy measures. Focus on reducing reliance on pesticides and antibiotics and optimising fertiliser use. Strong interest in biodiversity and the environment. Boosting organic production is another element.

Delivery of the Green Deal is contingent on involvement and engagement of stakeholders.

Comments:

Sustainability comes at a cost and consumers are not aware of the economic impact. In a short period of time, there will be competition from products coming from other parts of the world which are not making these efforts. The consumer does not see the efforts made on sustainability. There is less of a price being paid to conventional producers. Initiatives making aware the sustainability challenges to dairy chain partners are being developed nationally. Would 'biodiversity' be understood in the same way by all sectors?

Farm to fork will include some legislative initiatives. There is a perception that F2F is very 'anti' animal agriculture. Mandatory origin labelling makes production most expensive. Product reformulation doesn't work for products like cheese. None of the food labelling systems (nutri score etc.) recognise the nutritional value of dairy foods - dietary guidelines only take into account calories or 'per gram' of food. Does not take into account micro nutrients. Climate labelling will not work for dairy, environmental labelling might be an alternative

*f. GIs and origin - status of ECIs - The ECI was not submitted to the Commission yet (therefore there was no presentation on this point and subsequently no discussion)*

### **3.2.6 Update on Carbon Farming**

DG CLIMA C3 – Christine MÜLLER

The ‘carbon farming’ endeavour has to be seen in the context of the existing climate strategy of the Commission. The goal is for climate neutrality in 2050. Sustainable taxonomy– also covers agriculture (e.g. crop rotation).

Carbon Farming Study – running since November 2018. Carbon farming scheme guidelines should be ready sometime in 2020.

Example of a practical project: In 2019, 500 farmers in France implemented the recommended actions of the ‘CAP 2’er’ project. On-farm audits of carbon emissions and mitigation can be translated into other countries and regions of Europe.

In Austria there is a ‘healthy soil for healthy food’ initiative. This involves farmers engaging in healthier production measures and the retailer (Spar) communicates this in their shops.

There is also a peat-land re-wetting project in 3 federal states in Germany – ‘MoorFutures-family’.

Next steps – working towards a roll out of carbon farming across Europe. CAP strategic plans should be analogous with the EU climate policy. With respect to the Farm Sustainability tool for nutrients – ‘FaST’ – an app is available.

### **3.3. Trade**

#### **3.3.1 US trade measures affecting dairy and recent markets developments**

Guest speaker joining from US via videolink

US production has been growing at a greater rate than US domestic use. US exports are growing faster than those of the EU and NZ, but in terms of overall global exports, the US share has not grown.

If US share is to grow, from whom will it be taken? Will NZ growth stagnate? If the current trajectory continues, it will be nice for the US but it will not be a major development.

US has a lot of advantages: has ‘the engine’, has the resources and the facilities and there is high quality milk., but if you’re a domestic focused company that just packages liquid milk, there is not much to be excited about as regards exports. If the US is serious about exports, the prevailing policy has to promote this. There are increased risks and there needs to be more flexibility. Should there be more of a move towards branded products?

Farm finances are looking okay in the US, despite a volatile few years. The US farm sector owns \$2,5 trillion of real estate and US farm real estate debt is only 11% of equity. Payments in the market facilitation programme vary between different US states. Dairy margin coverage programme covers up to \$9.50/hundredweight (approximately 50.8 kg) – average of \$0.93/hundredweight paid out in 7 months in 2019. 15% of US milk is covered by the Dairy Revenue Protection Programme. Subscribers tend to be the larger, more business oriented operators.

Going forward, a phase 1 US-China deal will be okay but nothing major – will also be muted by the aftermath of the corona virus. A big trade deal will have to be delivered by the US

administration going forward. China dynamics will be different going forward. In terms of US trade, it is not clear whether there is a plan or purpose beyond simply exporting more.

Comments:

It is a little bit too early to give an assessment of the impact of the Airbus tariffs. Prior to the application of the tariffs, an enormous amount of Irish butter and different cheeses were imported. Has not yet seen any statistical data on retail sales of Irish butter etc. Because so much was imported ahead of time, it is difficult to fully assess what has happened. Buyers suggest that they are able to take on a certain degree of price increase. Price transition has not been very swift, it is more of a slow intake into the system.

### **3.3.2 Update on the negotiations with the United Kingdom towards a free trade agreement**

DG AGRI A1 – Willi SCHULZ-GREVE

First round of negotiations with UK concluded today (5 March 2020). A press conference took place earlier today summarising the outcome of the first round.

It is very important that the Withdrawal Agreement, including the Protocol on Ireland/Northern Ireland is properly implemented on both sides. We have to prepare for a new situation after the transitional period, i.e. the exit of UK from the single market and the customs union. As from 1 January 2021, completely different situation in customs and markets. For the new agreement, there is a very short time (until 1 July) to decide about a possible prolongation of the transition (beyond the current date of 31 December 2020).

11 negotiation tables have been set up for the first round. Scope of the negotiations is much broader than a typical FTA negotiation.

Serious divergence in terms of ‘level playing field’ – UK does not accept the argument of proximity. Divergences in judicial co-operation and having a comprehensive chapter on governance (dispute settlement). Major differences in the field of fisheries.

Trade in goods – EU links quota and duty free access to level playing field. Given the differences in level playing field, it remains to be seen how trade in goods discussions evolve.

Level playing field discussion covers state aid, competition, state owned enterprises, taxes, social and employment standards, environmental and climate standards and other areas. GIs are also being discussed.

Comments:

There is a need to integrate the European Social Model into the discussions to eliminate the risk of social dumping in the future. In addition, Irish dairy farmers will be badly hit by Brexit. EU has been a very positive development for Irish dairying. It is crucial that the future regime is as close to the present as possible, even though some friction will be unavoidable. Rules of origin will also be a crucial element in a future EU-UK agreement.



### **3.3.3 Dairy aspects and timeline of the FTA with Vietnam**

DG AGRI A4 – Nuno VICENTE

In terms of total current exports of dairy products to Vietnam, most is milk powder and whey, but there is also €20 million of cheese.

Achievements for market access in the agreement: full liberalisation of whey from entry into force. Other lines will experience liberalisation in 5 years. 3 years for 0401, butter in 5 years, cheeses in 3 or 5 years, (depending on the particular CN code). Protection for GIs was included in the deal.

EP gave its consent on 12 February. We expect the national assembly of Vietnam to adopt it in May. Latest estimate is that the deal will enter into force on **1 July**. In addition, Commissioner Wojciechowski will organise a mission to Vietnam in November.

### **3.3.4 Assessment of the FTA with Japan after first year of implementation**

DG AGRI A4 – Noemie BEIGBEDER

We are now celebrating the first full year of the EPA (in force since 1 February 2019). In dairy, there have been some successes. Butter and cheese exports have seen increase.

There were some concerns in the beginning about the management of TRQs. Very high number of applicants initially (operators which were not using the licences). However, the procedure was rectified in July. Now only operators actually dealing with cheese will get licences. Positive changes will be seen for fiscal year 2020 (starting on 1 April) – smaller number of applicants this year now that the system has changed. There were 465 applicants for cheese licences in 2019 and only 110 applicants for these licences in 2020. Details of this will be available soon. 211 GIs are protected under the agreement.

Comments:

The EU-Japan agreement is a good deal for dairy and there have been immediate results. Japan is the most important market for EU dairy after China, US and Saudi Arabia and certainly the most stable major market.

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

In terms of market developments, the short term outlook for EU dairy is generally good, despite the possible threat of certain challenges (increased presence of the US on international markets, US tariffs on EU dairy exports, trade restrictions in Indonesia and Nigeria, threat and aftermath of the corona virus).

Certain topics covered in this meeting will continue to dominate the political agenda in the months and years to come (CAP reform, Green deal, Farm to fork, Carbon farming, EU protein strategy).

## **5. Next steps**

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

## **6. Next meeting**

Date of next meeting – Friday, 16 October

### 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."*

## **7. List of participants - Annex**

List of participants– Minutes

*Meeting of the Civil Dialogue Group Milk*

*5 March 2020*

MEMBER ORGANISATION	NUMBER OF PERSONS
EuroCommerce	---
Eurogroup for Animals	---
European agri-cooperatives (COGECA)	9
European Coordination Via Campesina (ECVC)	2
European Council of Young farmers (CEJA)	2
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)	7
European Milk Board (EMB)	1
Farmhouse and Artisan Cheese and dairy producers' European network (FACEnetwork)	1
FoodDrinkEurope (FoodDrinkEurope)	7
International Federation of Organic Agriculture Movements EU Regional Group (IFOAM EU Group)	---
Guest speaker from US	Via Videoconference