



EUROPEAN COMMISSION
 DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT
 Directorate G. Markets and Observatories

Brussels,
 (2018)351345

FINAL MINUTES

Meeting of the Civil Dialogue Group "Milk"

Date: 17 October 2017

Chair: Mr Michel Nalet

Organisations present: All Organisations were present.

1. Approval of the agenda (and of the minutes of previous meeting¹)

The agenda and the minutes were approved.

2. Nature of the meeting

The meeting was non-public.

3. List of points discussed

- **Election of the Chairmanship of the CDG on Milk**
- **Milk market situation:**
 - **presentation by the European Commission and roundtable discussion, including information on the release of the SMP back on the EU market**
 - **presentation by the European Commission of the short-term outlook for the dairy sector**
- **New implementing rules for the most deprived persons – information by the EC**
- **Future CAP – presentation of calendar**
- **State of play on Omnibus dialogues**
- **Evaluation of the marketing standards in the dairy sector – information by the EC on the timeline and scope**
- **"Milk package" report – follow-up**
- **Unfair trading practices – follow-up on the EC public consultation and next steps**
- **Information on the planned EC impact assessment on the future FTA between New Zealand and Australia and the EU**
- **Import cheese quota management as part of CETA and the new Class 7 introduced by Canadian dairy industry**
- **Evaluation of the state aid rules**
- **Brexit – follow-up**
- **Update on the new school scheme**
- **AOB**

¹ If not adopted by written procedure (CIRCABC)

Election of the Chairmanship of the CDG on Milk

Mr Michel Nalet (FoodDrink Europe) was elected Chair of the CDG on Milk for a two year term (1 + 1 renewable). Mr Karsten Schmal (Copa) and Ms Anne Randles (CELCAA) were elected Vice-chairs.

Milk Market Situation

- **presentation by the European Commission and roundtable discussion, including information on the release of the SMP back on the EU market**

The EC representative presented the milk market situation. The presentation can be found on CIRCABC. Overall, the milk market situation is better than it has been in the past year. Milk collection has increased in July and August, butter production is at lower level and prices are exceptionally high. SMP prices are below the intervention level. Current public SMP stocks are around 380 000t. The exchange rate has an impact on competitiveness.

- **presentation by the European Commission of the short-term outlook for the dairy sector**

The EC representative presented the short-term outlook. The presentation can be found on CIRCABC. Dairy herd is back to a declining trend in many countries. There has been a general slowdown in EU cow slaughterings. Consumption of dairy products has continued increasing. Exports have performed well. Expectations for 2018: +1,4% milk output compared to 2017 (+0,7% for 2017 and most of the milk goes into cheese and whey). Increasing use of cheese and butter (retail sales and catering), sales of margarine dropped substantially in the past decade, not only because of formula change but also because of big increase in sector of pastry etc, increase in soft cheese use. Very low stocks of butter. EU SMP exports strongly up 780 000 tonnes, +35% of increase in SMP exports for 2017. Decrease in drinking milk consumption -5 kg/capita in the last 10 years.

Discussion

Copa is more prudent on the market situation and prospects. Climatic aspects (fires and floods) would need to be taken into account. In some countries, there is no butter on the shelves. Attention is needed for next spring, especially in the context of high SMP stocks.

Via Campesina asked for a fair sharing of margins in the food chain. Low prices had a strong impact on countryside and in social terms. The financial situation of farmers is not yet stabilised. A conversion of exports to value was requested.

EEB would like more focus on statistics on organic and other alternatives to “factory-farming”. Analyse the figures using analytical models, quality parameters and which have a scientific basis.

EMB asked about the prospects from the COM to get rid of 200 000t of SMP in stocks. Consumption is decreasing, promotion budget needs to be used to encourage milk consumption. Lactose-free milk should be included in traditional drinking milk. Butter prices are dropping. What happens in 2018 with further falls of butter prices and in the context of SMP stocks? Farmers have no cash flow to survive another crisis.

Eucolait is concerned about the outlook for spring if production is expected to increase. Competitiveness is low due to the exchange rate. The rapidity in the fall of butter prices is impressive. We need to see what level demand picks up again. SMP prices are very low, if more fresh SMP is available at attractive price, it would be difficult to sell 150 000 t unless used for animal feed. Asked for more information in the reduction of the SMP ceiling for public intervention.

EDA underlined that market sentiment varies now. Butter market undergoes structural development. Fundamentals in the market worldwide are still ok. We are much more dependent on the global market worldwide - China is also key for the second part of the year.

The EC representative underlined that trends are being analysed, with objective figures being presented. EU butter production in 2017 is comparable with 2015 levels. The shortage in stores is not a general trend. Exports in 2017 are increasing more in value than in volume, these figures can be found on the MMO website. Climatic conditions did not negatively influence production. The decrease in liquid milk consumption may be explained by the fact that people do not take their breakfast anymore. The analysis on the SMP outlook is done by taking into account the balance sheet, and the figures on potential destocking are only working hypothesis. Lactose-free milk is comprised in the milk category in the charts. Alternatives products include soya, almond products. Butter demand is structural according to Milk Market Observatory Economic Board. There are reasons to believe that the situation will remain. Butter and SMP production count for around 1/4 of the total milk use in the EU. Regarding the announcement made by the Commissioner, public intervention for SMP and butter will be available in March-September but in view of the high butter prices, buying-in at fixed price has some implications. The proposal is to operate a tender procedure, with COM and MS deciding on the offers to be accepted and at what price. In practice, the ceiling at which public intervention takes place at fixed price in 2018 would be set at 0 (similar procedure as that followed in 2016 to increase the ceiling). This requests a change of the Council regulation.

New implementing rules for the most deprived persons – information by the EC

The EC representative presented the new rules, with a focus on the eligible products, the conditions for releasing them on the market, the possible avenues. Stocks are to be released in a way to avoid market disturbance. The new implementing rules are applicable to all products subject to public intervention, although at the moment there is only skimmed milk powder in public warehouses. The EC indicates the quantities available, MS indicate if they wish to participate, the EC allocates the stocks and then MS sell them by tendering.

Discussion

Cogeca asked about the number of most deprived people (children and elderly).

EDA wondered about the benefit of the programme.

The EC representative replied that details on the number of most deprived people can be found on DG AGRI website. Quantities to be sold via this programme are not yet decided.

The Chairman concluded that the SMP market and price will have to be followed.

Future CAP – presentation of calendar

The EC representative presented the state of play. Preparatory work, public consultations etc, inception impact assessment, have all taken place. CAP communication is foreseen before the end of the year. It should be adopted by the college, then debate will pursue and following steps will be planned. Juncker announced that the new budget for MFF will be there in May 2018 (CAP is a part of the MFF).

State of play on Omnibus trialogues

The EC representative presented this point. The purpose is to simplify the CAP provisions. Four trialogues have taken place, with the last one on 12th October. On 16th October, the SCA approved the text. On 6th November, an orientation vote will take place. Agreement will be applicable as of Jan 2018. The changes, amendments proposed go from the definition of permanent grassland, greening, active farmers, young farmer, financial instruments, risk management. Some changes have been made to the horizontal regulation. There were no major changes for the dairy sector. An important one is the prolongation of the milk package without an end date. There is also the possibility to agree on value sharing clauses between producers and processors, increased cooperation, and the possibility for the COM to act in case of crisis without having exhausted the public intervention and PSA.

Discussion

EMB underlined that their milk farmers are not happy with the Omnibus. Not happy with the fact that no crisis instrument (voluntary reduction of production) was introduced/retained.

Copa asked about for more details on the changes to the « milk package » provisions.

ViaCampesina underlined that many farms are disappearing. The EU dairy policy is getting less European. Question the impact of POs on prices or producers' position or margins.

Eucolait asked if the new provisions of art. 148 also apply to cooperatives.

EDA communicated its concerns on this change of position and that new mechanisms deserves an in-depth discussion and consider that it is too early for a complete reform of the CAP.

The EC representative underlined that the voluntary reduction of production is already possible as the regulation stands (it was implemented in 2016). EC has a broad range of emergency measures available under which they would have the possibility to use it again. Milk package provisions are left as they are. On value sharing, it is to be seen if the dairy sector can make use of this opportunity.

Evaluation of the marketing standards in the dairy sector – information by the EC on the timeline and scope

The EC representative presented the purpose of the evaluation. 18 contributions have been received to the public consultation on the evaluation roadmap (including from EDA and European Vegetarian Union). The evaluation will start with the selection fo a

contractor, there will be an evaluation report and Commission staff working document end of 2018/beginning 2019. The purpose would be to determine to what extent the EU marketing standards for food products are delivering to achieve the fixed objectives and are useful in this sense for the stakeholders (consumers, producers, traders, packers, retailers). EDA would like the inclusion in scope of the evaluation of the possibility for establishing an EU definition of cheese and processed cheese. The European Vegetarian Association would like to enlarge the use of the denominations for milk and milk products to products which are not of animal origin. The evaluation is supposed to finish end of 2017 or beginning of 2018.

Discussion

EDA invited the members of the CDG to collaborate on the topic given its crucial importance for the dairy sector. Asked for clarifications on the scope of the evaluation.

Copa supported this approach. A study in France showed that consumers are not really aware what means “almond milk” (they think it is milk enriched with almonds). It is misleading consumers on the properties of the product.

The Chairman also underlined that other denominations are wrongly used, like the one for cheddar.

Eucolait supported the previous interventions. The discussion should focus on marketing standards and not on the protection of dairy terms.

EDA and Eucolait asked about the scope of the evaluation.

ViaCampesina was of the opinion that milk producers need to be defended.

FaceNetwork supported more clarity on what is cheese and what is not cheese.

The EC representative underlined that the evaluation is cross-sectorial. Other questions and proposals may equally arise directly or indirectly. The final scope will be defined in the tender specifications for the selection of the contractor.

The Chairman underlined the need to closely follow this topic.

“Milk package” report – follow-up

The EC representative gave an update. Despite the big potential of this instrument in the milk sector, it has not been sufficiently implemented. The report released last year provides for some recommendations on POs (including their promotion) and the prolongation of the milk package beyond 2020. Farmers see the benefit of POs (higher prices, POs as risk management tool). There is more reluctance in countries where it is not the tradition to have POs. The EC is planning workshops, campaigns etc. The 1st meeting will be on 19th October, with MS, then a stakeholder meeting on 28 November and then workshops at national level.

Unfair trading practices – follow-up on the EC public consultation and next steps

In December last year, the Council invited EC for an impact assessment on unfair trading practices & also market transparency & producer cooperation. In June 2016, in its resolution, the EP invited EC to look into UTPs. In November 2016, AMTF published its report with recommendations in 6-7 areas. The inception impact assessment was

launched in July 2017 and stakeholders were invited to comment. The EC received 66 feedbacks. The public consultation lasts until 17 November. Legislative proposals will be ready for the first half of 2018.

Discussion

Copa underlined that a fair price is needed.

The high level forum on better functioning of the food supply chain achieved also some improvement, self-regulatory basis made the sector more aware of what the problems are, HLF looks into market transparency and the value added generated in the chain. ES & FR are MS which proof that things are done regarding UTPs, MS do legislate on UTPs, EC would not necessarily be on the line where it would fully harmonize everything, only partial harmonization, some MS would hate to see harmonization tendencies which would dilute their own national legislation in this area, Macron recently touched upon issue of food supply chain. The French Observatory on prices and margins covers these two elements but this is not the case everywhere.

EEB demands for an Observatory of prices in relation to production methods because today the pressure on prices and lack of transparency prevents more animal and environment friendly production methods to develop ; action is needed.

Information on the planned EC impact assessment on the future FTA between New Zealand and Australia and the EU

The EC representative presented this point. Overall, there are concerns from EU side which would have to compete with products coming in.

Discussion

Eucolait underlined that having Australia and New Zealand together in one basket is not good, Australia is among our top export markets for cheese. Favour FTAs in general, for New Zealand it is questionable if opportunities are there given the size of the market.

The EC will take a further impact assessment, significant sanitary barriers still also for raw-milk cheeses in Australia f. ex., GIs are also an important topic.

EDA underlined that NZ and AUS are two different markets, the sensitivities on both markets are not the same, both of them have FTAs with China. What are the criteria for the impact assessment? Better wait the outcome of the Brexit discussions on TRQs.

TRQ for NZ butter are substantial, not so substantial for cheese, but NZ does not use its current quota.

Import cheese quota management as part of CETA and the new Class 7 introduced by Canadian dairy industry

Canada Milk Class 7

The EC representative presented this point. In Canada farmers don't sell milk to processors, there is an intermediate body – Provincial marketing boards – they buy milk from farmers and sell it to processors, who pay for the milk they are buying according to the several milk classes, which exist (several prices categories – fat, protein and other solids....milk components) – pay a different price on depending which product they

make. A complex system of pooling is in place – different categories, different regions ...so that farmers are receiving more or less the same milk price. Through quota system (supply management) they are relatively isolated from the internal market. Only for a WTO-compliant special milk class for exports they have competitive prices..

In US they produce ultra-filtered milk with high concentration of proteins – this product was invented after Nafta was in place so it could be imported into Canada duty-free.

Canada introduced in February 2017 (first in September 2016 in the province of Ontario) a new class of milk – class 7 (protein products) to overcome US imports of ultra-filtered milk (main goal to replace imports). The moment this category was introduced the pricing of the other products needed to be adjusted (some others needed to increase to keep the milk price the same). They take the minimum price of SMP for EU, NZ and US (to get equivalent protein price) – price for protein is very low (is done every month). With the milk price they have in Canada, Canada would not be able to pay these prices (so other prices have to be adjusted to compensate it). Almost overnight US stopped to export ultra-filtered milk to Canada. Since mid-2016 SMP exports of Canada increased substantially, in 2017 until August Canadian SMP exports increased even more, in 2017 4 times more SMP exports than in 2015 (mainly to same export destinations as the EU...Algeria, etc), but exports increased already a lot before class 7 was introduced! EU MPC exports to Canada (040490 and 35040010) – exports even increased from 2016 to 2017 – so no visible impact on EU exports. EU SMP exports might look different if Canada would export less...as they have almost the same main export markets.

Discussion

EDA asked what the opinion of the EC is and if there is any action taken. Export subsidies are now forbidden, what is the difference between Class 7 and 5?

Eucolait explained that a similar scheme was introduced before that in Ontario (alone) – which might explain some rising exports before introduction of class 7 system in Canada.

EC tries to pursue this bilaterally. Not all export subsidies are completely dismantled, some countries have maintained the right under condition to WTO, to maintain some export subsidies – Canada until the end of 2020. In the past Canada used quota levies to subsidy.

CETA

The EC representative presented this point. Since 21st September, the provisional application started. 7 MS ratified so far. The cheese quota more than doubled compared with the current amount of WTO quota (most of it premium quality cheeses) – import quota management for cheeses – it would appear that producers/manufacturers would get more of the quota and also EC was rather dissatisfied, EC brought it through negotiations to 50 / 50 (producers, retailers), they also decided to give some priority to small and medium sized producers, EC got assurances from Canada that quota will be fully utilized. Canada reassured EC that 30% of licences will be available for new operators.

Some vital info is lacking on list of quota holders.

Discussion

Eucolait underlined that most of the quantities for new operators are quite small, which makes it difficult to import anything at all. What would be the sanction if a company decides not to use the quota allocated?

EDA mentioned that TRQ management system in CETA should guarantee full market access (as mentioned in the agreement), but reality is different: 50% of the cheese are managed by the producers in Canada.

The EC representative replied that if any quota is returned it goes back to quotas pool, which is positive, some retailers had relatively large allocations.

Evaluation of the state aid rules

The EC representative gave an overview of the main principles of State aid rules under the Treaty and the secondary legislation according to which State aids are in principle prohibited as they distort trade, but that certain state aids can be allowed by the Commission. A public tender procedure for the selection of a contractor who will carry out an evaluation of the current State aid policy in the agricultural sector is ongoing. That evaluation will feed into the review of the State aid rules for the period 2021 to 2026. A public consultation on this new policy will be carried out at a later stage. He.

De minimis regulation is currently under review, EC started an inception impact assessment. During the recent market crises in different agricultural sectors, MS asked EC for an increase of the minimis thresholds. The EC has to look at the overall picture: what would happen if a MS concentrates its aid in a particular sector. If the amounts are chosen too high, there would be a risk of distortion of competition, i.e. the EC would not be allowed to go above such thresholds because such aids would be incompatible with the Treaty.

EC received numerous contributions through the public consultation.

EC asks for putting forward comments during the public consultations on any new State aid rules.

Brexit – follow-up

The EC representative presented this point. It is very unlikely that MS give the mandate to pursue discussions for next step. 5 rounds of negotiations have taken place since June. Talked about issues of relevance for 1st part of negotiations, where EC got mandate, progress in certain areas, big element where still clear position from UK is needed in order to advance is on financial settlements. There are some good points from May speech in Florence. EC published its position paper on intellectual property rights, including GIs. The purpose is to ensure legal continuity for GIs registered before the date of UK withdrawal. No position yet from UK.

On TRQs, based on the mandate of MS to engage in talks with UK where they have continued international obligations after withdrawal, an agreement was reached on a common approach regarding the apportioning of TRQs (based on recent representative trade flows) and engagement at the WTO. On 11th October, a joint letter was sent to WTO membership about this approach. EU and UK started to engage with partners in Geneva to explain position and talked primarily to those members who have a country specific quota. If 'sufficient progress' is achieved by the December European Council, discussions can move onto phase 2.

EU wants to limit economic disruption as much as possible but it is subject to the UK's position and future regulatory environment. An objective is to limit deviation of regulatory environment in UK as much as possible in order to ensure a level playing field. UK so far wants to leave single market and customs union, which implies border management. Negotiations with UK need to be concluded by October 2018 (time left needed for ratification etc) – so 1 year time left for negotiations. Preliminary discussions on framework of future trade relationship can take place in the second phase of negotiations, as well as on a potential transitional period. PM May's Florence speech regarding transition imply a short transitional period during which the UK would stay under EU acquis.

Update on the new school Scheme

The European Commission representative gave an update on the latest development of the new school scheme started 1 August 2018:

All 28 Member States have submitted their national or regional strategies by 31 July 2017, which will be published on the Europa website once translations finalised: https://ec.europa.eu/agriculture/school-scheme/eu-countries_en

- All Member State implement the milk part of the scheme focusing on children mainly in primary schools
- Children in all Member States get drinking milk: 6 Member States distribute only drinking milk, 21 Member States distribute other milk products without added sugars (e.g. plain yoghurt, cheese) in addition to drinking milk and 12 Member States distribute Annex V products (with the possibility of added sugars) in addition to drinking milk.
- Children will benefit from educational measures; which will be introduced also for the milk part of the scheme as a new element compared to previous milk scheme.

Member States will submit their aid requests for the next school year (2018/19) on 31st January 2018.

Discussion

EEB insists on the need for scientific not marketing nutritional approach.

4. Next meeting

5. Conclusions/recommendations/opinions

6. Next steps

7. List of participants - Annex

List of participants– Minutes

Meeting of the Civil Dialogue Group "Milk"

Date: 17 October 2017

	MEMBER ORGANISATION	NAME OF REPRESENTATIVES	
1	CEJA	FERRARESE	Piergiovanni
2	CEJA	SVENSSON	Emma Charlotte
3	CELCAA	DE GRAHL	AmÅ©lie
4	CELCAA	FEURLE	Klaudia
5	CELCAA	LIKITALO	Jukka
6	CELCAA	O DONOVAN	Alice
7	CELCAA	RASMUSSEN	Keld Winther
8	COGECA	ABRATE	Tommaso Mario
9	COGECA	CARDOSO	Fernando Jorge
10	COGECA	CORRALES CIGANDA	Gonzalo
11	COGECA	DREIJERE	Silvija
12	COGECA	GALATOULAS	Ioannis
13	COGECA	KLUEMPER	Wilhelm
14	COGECA	LONG	Jerry Oliver
15	COGECA	PRANAUSKAS	Eimantas
16	COGECA	SARON	Tiina
17	COGECA	ZLATAR	Domagoj
18	COPA	ALA ORVOLA	Leena
19	COPA	EDER	Helmut
20	COPA	FURLANI	Flavio
21	COPA	HARCZ	Zoltan
22	COPA	IRVINE	William
23	COPA	RAMSPACHER	Denis

24	COPA	ROQUEFEUIL	Thierry
25	COPA	SANTALLA AGRA	Roman
26	COPA	SMIGIELSKA	Dorota
27	COPA	GYORFFY	Camelia
28	COPA	TRANHOLM NIELSEN	Esben
29	ECVC	COLLIN	Philippe
30	ECVC	LECLOUX	Henri
31	ECVC	VILLALBA SEIVANE	Isabel
32	EEB / BEE	VONESCH	Anne
33	EFA	PORTA	Francesca
34	EFFAT	SCHMIDT	Peter
35	EMB	SCHOEPGES	Erwin
36	EMB	VAN KEIMPEMA	Sieta
37	EuroCommerce	MOISE	Corina Stefania
38	FACEnetwork	VAN DE VOORT	Irene
39	FoodDrinkEurope	ANTON	Alexander
40	FoodDrinkEurope	BRANDT	Riitta
41	FoodDrinkEurope	KLEINHOUT	Geert
42	FoodDrinkEurope	KLOOSTERBOER	Wim
43	FoodDrinkEurope	KOPACEK	Jiri
44	FoodDrinkEurope	MIRONE	Leonardo Giovanni
45	FoodDrinkEurope	MULVIHILL	Conor
46	FoodDrinkEurope	NALET	Michel
47	Ifoam Eu Group	GHEDIRA	Meriam