

Measures to support dairy farmers after the end of EU milk quotas

SUMMARY

Milk is produced in every EU Member State and EU milk production is growing. As the leading worldwide exporter of many dairy products, the EU is a major player in the global dairy market; within the Union, dairy is an essential agricultural sector with significant economic, social and territorial importance. For more than 30 years, EU milk supply was managed by the EU milk quota system, which expired at the end of March 2015. Although long-term market prospects are generally quite positive, with an overall rise in global demand which could offer opportunities to the sector, the challenges to be faced in coming years are numerous.

The current tensions regarding milk prices and the 2009 milk price crisis demonstrate that market liberalisation and dependence on international markets can increase market instability and price volatility. At its plenary session in July 2015, the European Parliament voted on an own-initiative resolution on prospects for the EU dairy sector. It suggested that a series of tools could be developed or improved for the milk sector, such as establishing compulsory written contracts between milk producers and processors, enhancing the role of producer organisations and the recently-created Milk Market Observatory and tackling unfair trading practices in the food chain. The European Parliament also proposed pursuing new trade agreements, and improving information and promotion programmes for the dairy sector and school milk scheme, as well as new measures to protect farmers' profit margins. In September 2015, the European Commission presented a €500 million package to support European dairy farmers.

This briefing updates ['The future of the EU dairy sector after the end of milk quotas'](#), published in June 2015.



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Background

Milk is produced in all EU Member States without exception, and overall EU milk production is growing. Indeed, in terms of value, milk is the EU's number one agricultural product, accounting for approximately 15% of agricultural output, with around 148 million tonnes of cow milk delivered in 2014 in the EU-28. As the leading exporter of many dairy products, the EU is a major player in the world dairy market. Within the EU, the sector is of significant economic, social and territorial importance. It encompasses over 650 000 specialised dairy farmers with almost 18 million milk cows and a labour force of 1.2 million people (Eurostat census 2010, in annual work units).

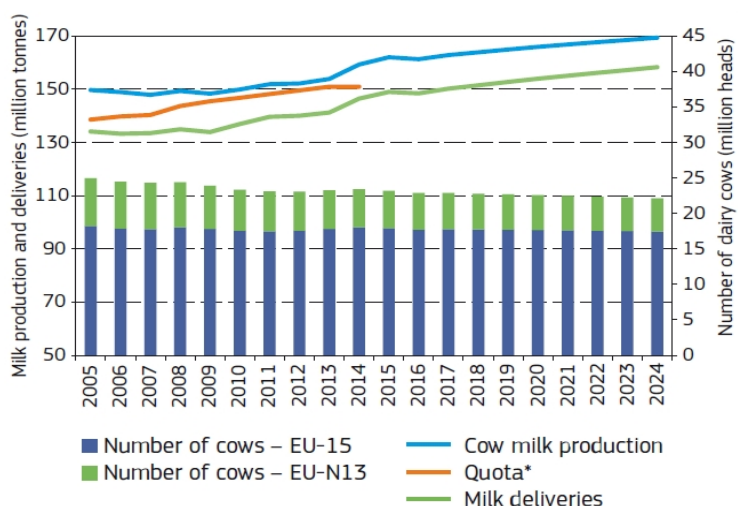
For more than 30 years, the EU milk supply was managed by the EU milk quota system which expired at the end of March 2015. This system, introduced in 1984, provided a national quota at Member State level and an individual quota fixed for each producer or purchaser, with a levy (the 'superlevy') payable for those who exceeded their quota. Subsequent changes have meant that producers were only required to pay the levy when the Member State also exceeded its national quota. The EU milk quotas were introduced to address the structural over-supply in the EU market during the late 1970s and early 1980s, when the system of guaranteed prices at a level well above world market prices led to a structural surplus, with the European Commission obliged to buy large volumes of butter and skimmed milk powder (SMP). On occasions these 'mountains' exceeded 1 million tonnes for both SMP and butter.

The removal of the milk production quotas is the biggest change to the European dairy industry since their introduction in 1984, signifying that, from 1 April 2015, market forces are the primary driver of EU milk production.

Production developments

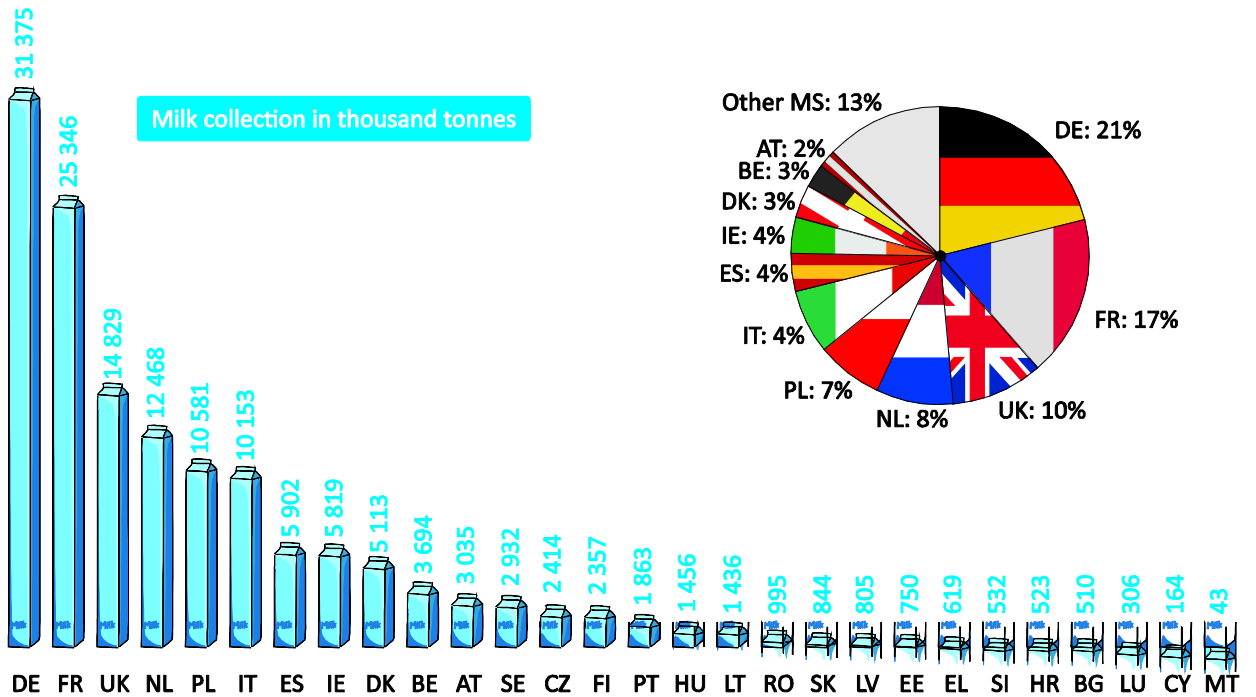
EU milk production has constantly expanded in recent years. It rose by about 5% in 2014, and milk deliveries in the first six months of 2015 were 0.8% higher than in the same period in 2014. Overall production forecasts are positive (see Figure 1). In Germany, France, UK, the Netherlands, Poland, Ireland, Austria, Denmark and Belgium, milk production has increased in the last 10 years (see Figures 2 and 3) and the forecasts to 2024 are generally positive (see Figure 3). Most of the EU's milk output is processed as cheese, butter or skimmed milk powder, as well as a wide variety of yoghurts, creams, ice creams and other value-added products.

Figure 1 – EU cow milk supply and EU dairy herd developments.



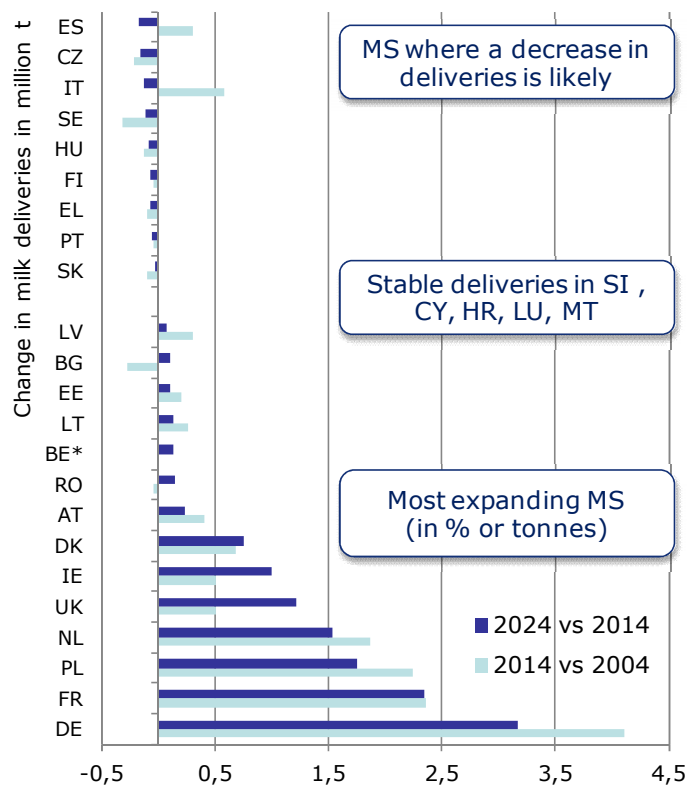
Source: European Commission, [DG AGRI](#).

Figure 2 – Milk collection in 2014 by Member State, in 1 000 tonnes



Source: EPRS calculation from Eurostat data.

Figure 3 – Milk deliveries forecast to 2024

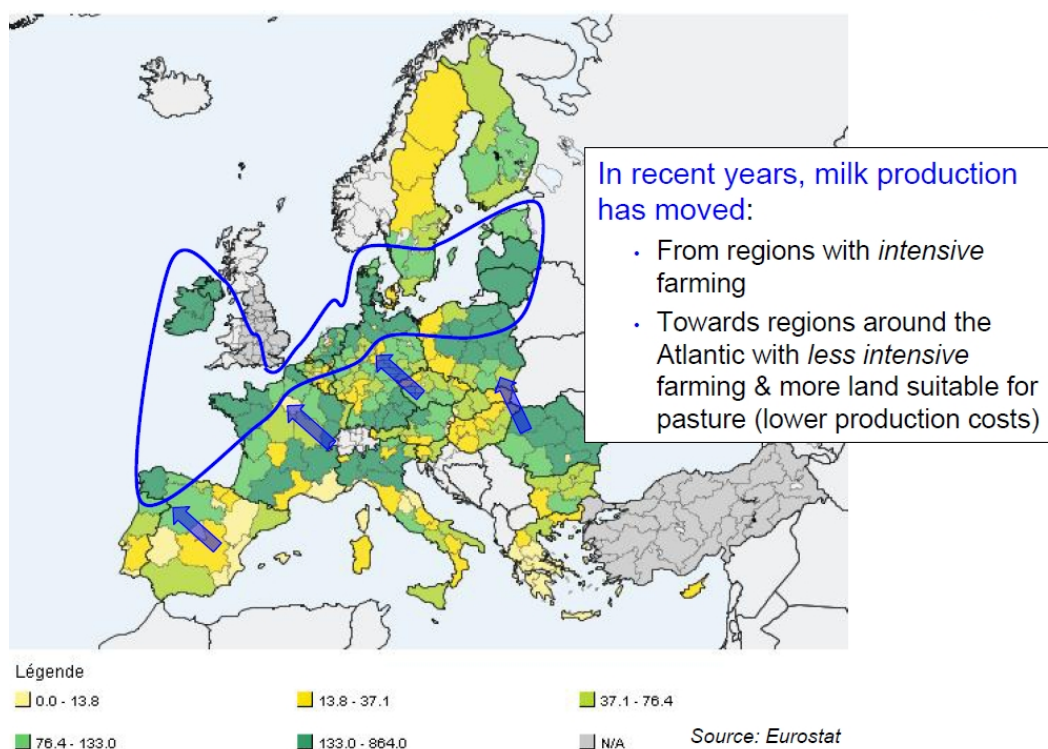


Source: European Commission, DG AGRI.

Challenges and market developments

After 30 years of milk quotas, long-term market prospects, as indicated in Figures 1 and 3, are generally encouraging; the overall rise in **global demand could offer opportunities to the sector**. Nevertheless, the challenges to be faced in coming years remain numerous. The 2009 and 2015 crisis showed that market liberalisation and dependence on international markets were followed by increased market instability and price volatility. **Increased volatility can lead to severe economic crises**, jeopardising the development of sustainable business and production, in particular in the most vulnerable areas, such as mountainous or less competitive areas. As noted above, milk production is expected to grow in the Member States indicated in Figure 3, especially in the most competitive areas. On the other hand, small farmers, farmers in mountain areas, or areas with higher production costs, may suffer without the protection of the quota system.

Map 1 – Movements in milk production at regional level in the EU

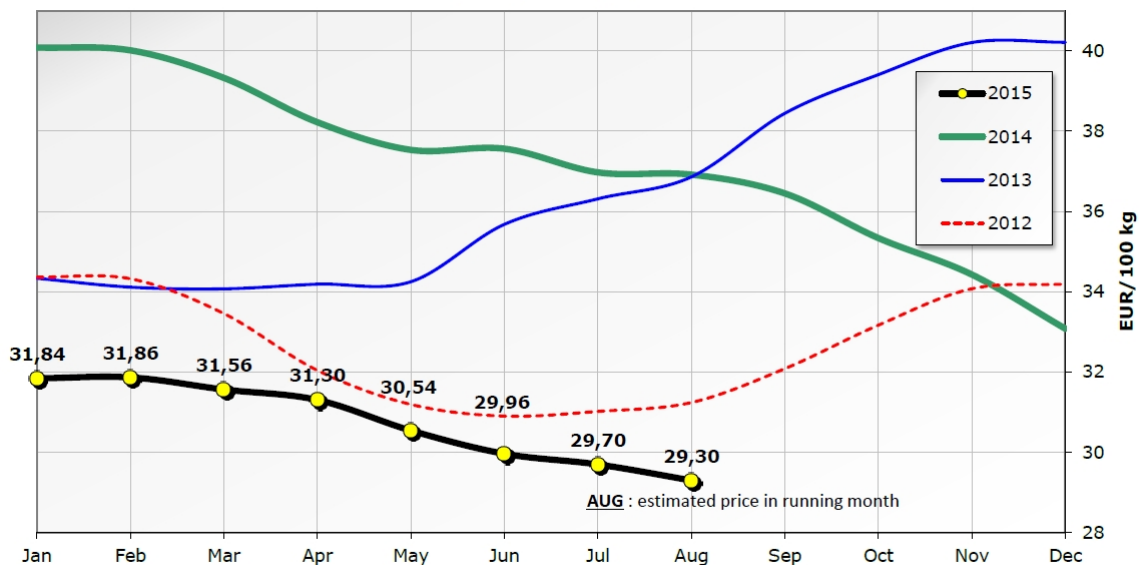


Source: GIRA, UK data not available.

In this context, an [analysis](#) provided in 2012 by an external consultancy firm (see map 1), indicates that EU milk production is moving to the Atlantic regions and shrinking in less competitive areas. In this perspective, the dairy sector will continue to shift from the family business model towards more specialised and intensive industrial farming.

Moreover, the recent Russian embargo (the EU-28 has lost almost €5 billion in agri-food exports to Russia in the past year) has further increased market uncertainty, at least in the short term. European dairy prices have declined significantly since the announcement of the embargo in August 2014, and again after the end of milk quotas, as shown in Figures 4 and 5.

Figure 4 – Average milk prices paid to producers in the EU-28 (weighted average)

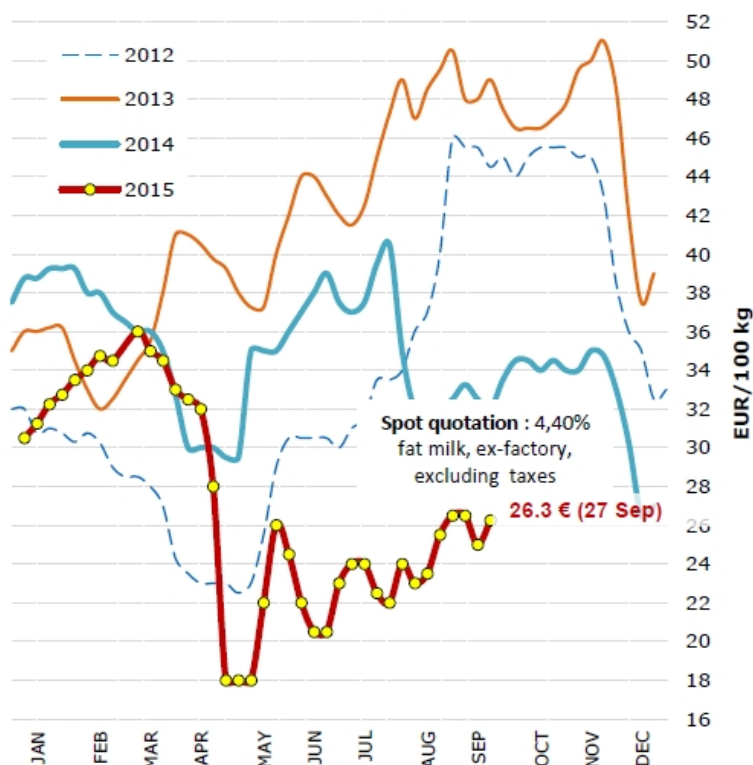


Source : Member States (Reg. 479/2010)

Last update : Aug 15 (estimated price in running month)

Source: Milk Market Observatory.

Figure 5 – Weekly milk spot prices, the price paid to producers at a specified time and place, in the Netherlands



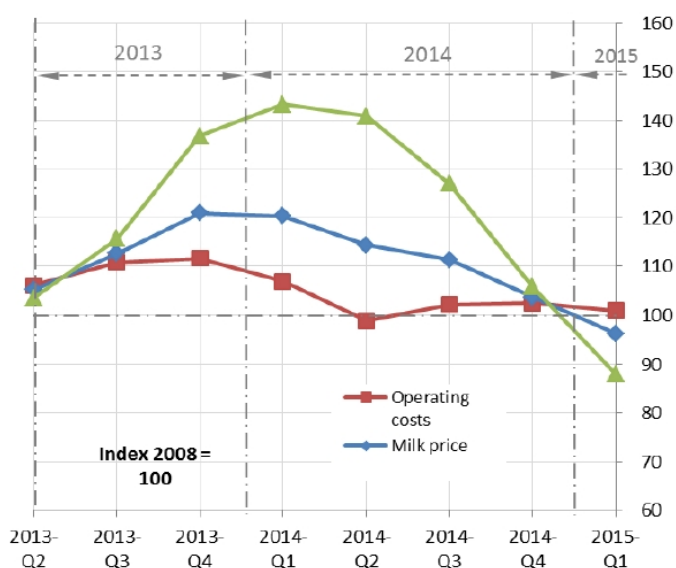
Source: Milk Market Observatory and Clai.it.

Even if the EU-28 milk price average is near the threshold of €0.3/litre, looking at the actual price paid to producers in each Member State, the milk spot price on the free market in the Netherlands, for example, is lower: €0.3/l. As shown in Figure 5, there is tension regarding milk spot prices, falling below the threshold of €0.3/l.

In terms of profitability, at the beginning of 2015 there was a drop in gross margin per tonne, as illustrated in Figure 6. As a consequence, the situation deserves the utmost

vigilance, especially in light of the fact that some farmers could be further penalised in facing payments of 'superlevies' due in the final year of quotas. This could create, in some rural areas and Member States, a sensitive social situation.

Figure 6 – Estimates of EU milk prices, gross margin (in green) and operating cost per tonne



Source: Milk Market Observatory.

Taking stock of the EU tools and the latest Commission measures

Safety net and income stabilisation tool

Regulation (EU) No 1308/2013 on a common market organisation of agricultural products provided a safety net in case of severe market crisis, with the possibility to use **public intervention or private storage for milk and dairy products** (see below). These tools can be activated only in cases of severe crisis, as they are very expensive for the EU budget.

Under the **2014–2020 CAP**, the dairy sector is equipped with a safety net (intervention buying-in for butter and skimmed milk powder; private storage aid for butter, skimmed milk powder and PDO/PGI¹ cheeses); coupled with a regulatory framework for the Commission to react to exceptional circumstances (e.g. extension of the intervention buying-in period; private storage aid for other dairy products; export refunds, temporary derogations from competition rules as regards agreements and decisions by recognised organisations on particular measures; exceptional counter-cyclical payments). Member States may grant coupled support to milk producers facing difficulties under certain limited conditions. Moreover, measures under the rural development plans could be implemented in specific areas.

Taking into account the milk price crisis, in September 2015 the Commission presented a **€500 million package to support European dairy farmers**. This money comes from the existing margins within the [2016 draft budget](#), namely heading 2 – *preservation and management of natural resources that includes the common agricultural policy, common fisheries policy, rural development and environmental measures*. Within the [2016 draft budget](#) an amount of €1 702 million in revenues, comprising €1 100 million from clearance of accounts, €161 million from CAP irregularities and €441 million from dairy superlevy fines, is to be assigned to the EAGF (European Agriculture Guarantee Fund). As a positive consequence, the 2016 crisis reserve² of €400 million will remain untouched. As shown in Figure 7, €420 million of the €500 million support package will be provided to all Member States to support their dairy farmers with appropriate and

targeted measures. Some 80% of the Member States' envelopes will be allocated on the basis of Member States' milk quotas in the past year, with the remaining 20% to be allocated taking into account criteria for those Member States which have been most affected by the Russian ban, the fall in pig-meat prices and the summer's drought. Additionally, the Commission will allow Member States to provide voluntary national aid equivalent up to the allocation set out in Figure 7.

Figure 7 – Member States' allocation of the targeted support for milk farmers and maximum private storage quantities for certain cheeses

EU Member States	Allocations in MIO € for milk measures	Max private storage tonnage for cheese
Germany	69,23	23.626
France	62,90	20.830
United Kingdom	36,07	3.854
Netherlands	29,94	8.156
Poland	28,95	7.859
Spain	25,53	3.635
Italy	25,02	12.015
Ireland	13,73	1.835
Belgium	13,05	1.243
Lithuania	12,63	1.163
Czech Republic	11,16	1.421
Romania	11,15	797
Denmark	11,10	3.334
Hungary	9,51	827
Finland	8,99	1.210
Latvia	8,45	348
Sweden	8,22	945
Estonia	7,56	454
Austria	7,00	1.968
Bulgaria	6,00	696
Portugal	4,76	704
Slovakia	2,46	426
Greece	2,26	1.880
Croatia	1,81	348
Slovenia	1,37	164
Luxembourg	0,67	33
Cyprus	0,35	199
Malta	0,12	30
Total EU28	420,00	100.000

Source: Commission delegated acts.

Regarding market measures, the Commission published a delegated act which provides **exceptional Private Storage Aid (PSA)** for certain cheeses to be withdrawn from the market for up to 7 months, and PSA for milk powder up to 12 months. The maximum

quantities of PSA for cheeses are illustrated in Figure 7, based proportionally on Member States' cheese production. Previously, on 17 September, the Commission adopted a [Delegated Regulation](#) to extend the public intervention period for butter and skimmed milk up to 2016.

Exceptionally, the Commission will allow Member States to pay up to 70% of 2015 **direct payments in advance**, from 16 October this year, following simple administrative checks, and without waiting for the completion of on-the-spot checks. Regarding certain **rural development measures** (such as agri-environment, organic farming, areas with natural constraints, animal welfare), Member States can already advance the payments by paying up to 75% from 16 October. The Commission increased this rate to 85%. On top of that, it has proposed to allocate €30 million to make EU milk available to refugees in difficult conditions, especially in EU neighbourhood countries.

In the risk management context, an interesting instrument to be further developed is the **income stabilisation tool** provided by Article 39 of [Regulation \(EU\) No 1305/2013](#) on rural development. This risk management tool supports farmers facing a severe drop in income (minimum 30% loss compared to the three previous years). Nevertheless, only a few Member States have activated and allocated enough resources to the instrument, probably due to its complexity and lack of available historical income data, as well as the rigidity of the threshold of the drop in income. It could be implemented by other Member States with the next modification of Rural Development Programmes.

Access to credit and financial instruments

Access to credit is a structural bottleneck for farmers' development, in particular for capital-intensive activities such as dairy farming, even if the Commission is working actively with the European Investment Bank (EIB) on options for establishing [financial instruments](#) (national or rural development allocations can be used for this). In practical terms, farmers have difficulties in obtaining loans at favourable rates and they do not have a constant income as a guarantee. The Commission is working on designing financial instruments where repayment schemes are linked to commodity price developments, but without adequate flexibility in the [State Aid guidelines](#) (such as eligible costs, *de minimis* rule, favourable interest rates) they could be not fully operative for farmers.

'Milk package 2012'

After the 2009 milk market crisis, when milk prices dropped to under €0.3/l, the Council and the Parliament adopted the so called 'Milk Package', published in March 2012 and now integrated in [Regulation \(EU\) No 1308/2013](#). The package contains some measures aimed at boosting the position of producers in the dairy supply chain and preparing the sector for a more market-oriented and sustainable future. In particular, to strengthen the supply chain relationship, written contracts were seen as a concrete method of ensuring equitable distribution of the risks along the supply chain, and reinforcing stakeholder responsibility to take account of market situations and respond accordingly. On this basis, for the moment, [12 Member States](#)³ have decided on **compulsory written contracts between milk producers and processors**. In two other Member States,⁴ codes of good practice inspired by the 'Milk Package' have been agreed between farmers and processor organisations.

Another important provision for Member States is compulsory recognition of **producer organisations** (POs), constituted by milk producers pursuing specific aims, such as:

- ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity;
- concentration of supply and placing the products produced by its members on the market;
- optimising production costs and stabilising producer prices.

Once milk quotas have ended, most [experts](#) believe enforcing the role of producer organisations in the EU is essential, and sufficient financial support should be provided both for current and new POs under Pillar II (rural development) of the common agricultural policy (CAP).

An essential tool introduced by the European Commission in April 2014 is the [Milk Market Observatory](#), which aims to monitor the EU dairy sector, in a transparent way, by disseminating market data and short-term analysis in a timely manner throughout the milk supply chain. Finally, the Commission will bring forward to 2016 the report on the '2012 milk package' originally planned for 2018, in order to consider its possible prolongation and improvement, including the extension of its provisions to other sectors.

Better functioning of the food chain

In July 2014, a Commission [Communication](#) on tackling unfair trading practices in the business-to-business food supply chain suggested a number of priorities to help establish an effective EU-wide framework for **addressing unfair trading practices (UTPs)**, such as monopolistic behaviour, delays in payment, hidden costs of promotional campaigns and fraudulent practices. It does not propose regulatory action at EU level, but encourages Member States to ensure that they have appropriate measures against UTPs. Commission President, Jean-Claude Juncker, has noted that 'there is something wrong in a market when the price of a litre of milk is less than the price of a litre of water', and the Commission is going to launch, in 2016, another high-level group on UTPs in the food chain. In the EP Committee on Agriculture and Rural Development's debates, tackling unfair trading practices in the dairy sector has been cited as an issue to be further developed and enforced at EU level, especially in the recent draft opinion [on unfair trading practices in the food supply chain](#) (rapporteur Mairead McGuinness, EPP, Ireland).

Labelling of origin

The Commission published a [report](#) to Parliament and Council in May 2015 on the issue of mandatory labelling of the country of origin for milk, milk products and certain types of meat. The report analysed three scenarios: 1. Status quo (voluntary labelling); 2. Mandatory origin labelling as 'EU origin/non-EU origin'; 3. Mandatory origin labelling indicating the Member State or third country. The report estimated that mandatory origin labelling might encourage consumers to favour domestically produced goods, noting however that, according to a [Eurobarometer survey](#) published in 2014, while consumers wish to be well-informed about the provenance of their foodstuffs, there may be little willingness to pay extra if the costs of providing such information are passed to the public.

Promotion and school milk schemes

In 2015, the European Commission has already approved 41 new programmes to promote agricultural products in the EU and in third-country markets, worth

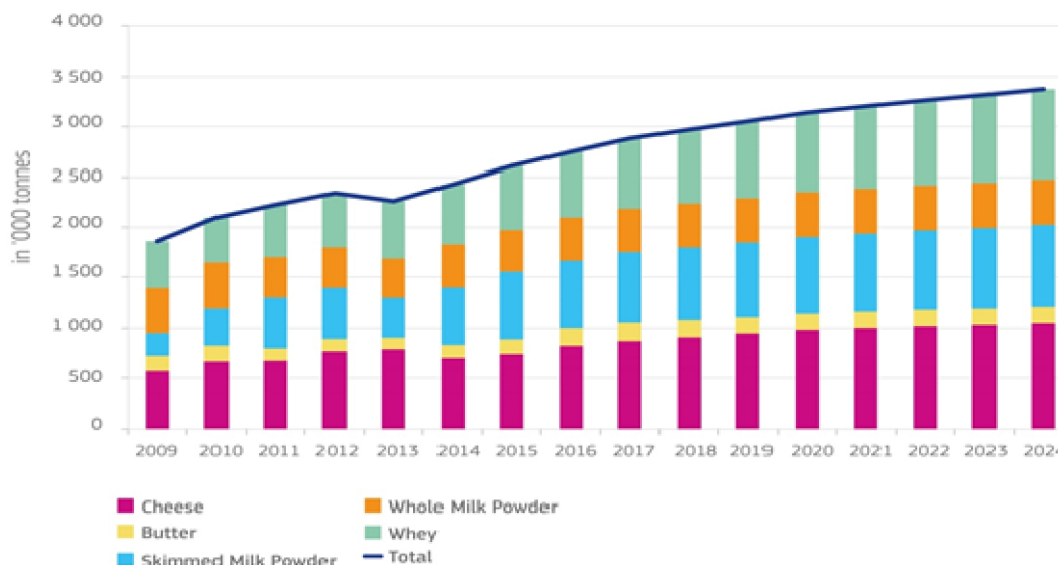
€130 million over three years, half of which comes from the EU budget. Six of these are [new information and promotion programmes for the dairy sector](#), all targeting third-country markets. Overall, they will receive nearly €12.2 million from the EU budget over three years, and mainly begin in mid-2015. These new programmes come in addition to 14 ongoing multi-annual programmes for the dairy sector, launched between 2011 and 2014. The Commission will add €30 million to the promotion budget in 2016, specifically for promotion campaigns on dairy and pig-meat. The [promotion policy as reformed](#) in 2014 will gradually see its budget increased up to €200 million in 2019, also thanks to the legislative [resolution](#) of the European Parliament.

Promotion plans are essential to benefit from export demand from third countries, while the [school milk scheme](#) aims to boost domestic consumption. This scheme offers support for the supply of milk products to pupils, with two core objectives: increasing EU milk consumption and milk demand; and raising consumption of milk and milk products by children and young people. Last year the European Commission [proposed](#) to bring two separate [EU schemes on milk and fruit](#) together under a joint framework, with a budget of €230 million per school year, of which €80 million is for milk. The European Parliament acknowledges the importance of the proposal, while the Council contests the legal basis. The Council considers Article 43(3) TFEU (special legislative procedure) more appropriate than Article 43(2) (ordinary legislative procedure). The Commission is working to find a solution to overcome the deadlock on the legal basis.

New markets and trade liberalisation

EU milk production is increasing, as is world demand, while EU internal demand is currently steady or stagnant. In this scenario, the EU has worked on a range of free trade agreements, the most recent being with Canada and Vietnam (for example, Canada will open its cheese market, and in the trade agreement with Vietnam, dairy tariffs will be reduced from a maximum of 19% to 0% within 3-5 years). The Commission encourages exploitation of all the possibilities offered by ongoing and **new trade agreements** and by the reduction of non-tariff and sanitary barriers to trade, especially in significant markets such as the USA and Japan. As shown in Figure 8, EU dairy exports, particularly cheese, increased recently and are expected to continue to grow.

Figure 8 – Projected development of EU dairy exports to 2024



Source: European Commission, DG AGRI.

A 2014 European Parliament [study](#), 'Risks and opportunities for the EU agri-food sector in a possible EU-US trade agreement', noted that the EU has a strong dairy product industry and that recent reforms have led to a reduction in the cost of milk, reducing the burden faced by potential exporters of processed products. EU dairy products face high tariffs that limit their entry into the US market, and preferential access under TTIP could provide a cost advantage compared to competitors such as New Zealand or Argentina. On the other hand, market distortion (currently hidden by high tariffs in the EU) already exists in the dairy sector, given that the EU prohibits the use of hormones (rBGH/BST), but not imports of dairy products from animals treated with hormones (one reason being that artificial hormone residues are difficult to distinguish from those of natural hormones). While the gain in milk production differs widely according to the production system, it is estimated to exceed 10% in most intensive farming systems, thereby providing a significant cost advantage for US producers.

European Parliament

The European Parliament adopted a [resolution](#) in 2013 on maintaining milk production in mountain areas, disadvantaged areas and outermost regions after the expiry of milk quotas. The resolution underlined that the 'dairy package', aimed at strengthening producer bargaining power, was only a first step in the right direction and would not be able to secure the future of milk production in these most vulnerable areas. It stressed the need to monitor the sector after the end of milk quotas and to focus on less favoured areas, mountain areas and the outermost regions, to ensure a decent living for farmers and the vitality of rural areas, especially as the 2013 CAP reform did not completely address this issue.

In July 2015, the EP adopted a [resolution](#) on 'prospects for the EU dairy sector – review of the implementation of the dairy package' on the basis of a report drawn up within its Committee on Agriculture and Rural Development (rapporteur James Nicholson, ECR, UK). It took into account most of the concerns arising from the end of milk quotas and any subsequent market volatility. In particular, it underlined the importance of maintaining milk production, as dairy farming makes an important socio-economic contribution to the EU, especially in less-favoured areas, mountain areas and outermost regions. It called on the Commission to monitor the functioning of the supply chain, the single market for dairy products and to set up an action plan to mitigate the risk after the end of milk quotas.

It further encouraged the Commission to propose regulatory actions at EU level to enforce appropriate measures against unfair trading practices in the milk supply chain. The role of producer organisations was seen as crucial; sufficient financial support under Pillar II could be provided for both current and new producer organisations, including lending facilities. Moreover, it urged that new measures to protect farmers' profit margins and an income stabilisation tool should be further developed and supported.

After the Parliament resolution and the extraordinary [Agriculture Council](#) in September, the Commission unveiled the €500-million support package outlined above. It will be implemented through Commission implementing and delegated acts (for example, on milk targeted support, PSA for cheeses, advance of direct payments) and, in doing so, the Commission will use the specific powers granted by the Parliament and Council. For delegated acts the two legislators have the right to block the draft acts (usually within a scrutiny period of two months) without having the right to amend the Commission text.

Main references

[Milk quota expiry & market prospects for the dairy sector](#), DG Agriculture and Rural Development, European Commission, March 2015.

European Dairy Industry 2015-2020, [the European Dairy Industry towards 2020](#), challenges, strategies and change, PROMAR international, 2014.

[Report](#) from the Commission to the European Parliament and the Council on the development of the dairy market situation and the operation of the 'Milk Package' COM(2014) 354 final, European Commission, June 2014.

[European Milk Market Observatory](#), DG Agriculture and Rural Development, European Commission.

[Prospects of EU agricultural markets and income 2014-2024](#), DG Agriculture and Rural Development, European Commission, December 2014.

[GIRA](#), Consulting and market research throughout the whole food and drink chain.

[CLAL](#), Economic consulting firm that analyses the dairy market, interprets trends and provides data.

Endnotes

¹ PDO: Protected Designation of Origin; PGI: Protected Geographical Indication.

² A crisis reserve of €400 million per year (in 2011 prices) is established to secure the financial resources needed in case of crisis in the agriculture sector, through deductions from direct payments by financial discipline, with unused amounts reimbursed to the same farmers in the consecutive budget years.

³ Latvia, France, Italy, Spain, Lithuania, Hungary, Slovakia, Croatia, Cyprus, Portugal, Bulgaria, Romania.

⁴ Belgium and UK.

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eprs@ep.europa.eu

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