

Opinion of the Committee of the Regions on the 'Milk package'

(2011/C 192/07)

THE COMMITTEE OF THE REGIONS

- points out that the dairy production is of major significance in the European Union: in many Member States and regions, it is a key pillar of the regional economy and agricultural added value. Milk production therefore has an important environmental role, has an enduring impact on the cultural landscape and is an important employer in rural areas;
- is of the opinion that the reform process needs to take account of regional and structural differences in dairy farming and the dairy industry. In many regions, most milk is produced on small and medium-sized family farms while in other areas milk production is dominated by large agricultural holdings. The reforms to the dairy sector must therefore not put these structures at risk, particularly those that contribute to sustainable growth;
- supports the European Commission's initiative of introducing certain common rules for milk producer organisations in the EU so that all milk producers in all regions have the option of joining forces, including across borders;
- therefore thinks it would be appropriate to continue to allow Member States to recognise producer organisations and associations thereof in the milk sector under national law, in line with certain requirements under EU law;
- welcomes the Commission's proposal to authorise sectoral organisations in the milk and milk products sector, in order to give real impetus in terms of research and development, promotion of organic production and sales promotion;
- notes that a reliable, responsive safety net that can react quickly and effectively to unusual changes in the market or prices is a requirement for a forward-looking EU milk production.

Rapporteur	Emilia MÜLLER (DE/EPP), Minister for Federal and European Affairs of the Free State of Bavaria
Reference documents	Report from the European Commission to the European Parliament and the Council – Evolution of the market situation and the consequent conditions for smoothly phasing out the milk quota system COM(2010) 727 final Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 1234/2007 as regards contractual relations in the milk and milk products sector COM(2010) 728 final

I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

Policy development and regional significance of the milk sector

1. notes that the milk sector is undergoing one of the most intense liberalisation processes in the EU. Milk producers and dairies are facing major challenges in the form of the reduction in internal support levels, the decoupling of direct payments and the milk premium, the gradual scaling back of external protection and the planned phasing out of milk quotas by 2015;

2. expects the liberalisation of the dairy market to lead to greater price volatility and thus to considerable uncertainty in milk producers' business planning;

3. stresses the need to curb speculation on global agricultural markets, and highlights the role that the European Union's external trade policy needs to play in achieving this; points out that the new CAP should be based on the principle of self-sufficiency in food and that the question of opening the European market up to cheaper imports should be linked to the discussions on the proposals on regulation of the European market;

4. assumes that, on the other hand, the opening up of the markets and the abolition of production quotas will make it possible to respond more effectively to market signals and to exploit potentially available demand;

5. points out that dairy production is of major significance in the European Union: in many Member States and regions, it is a key pillar of the regional economy and agricultural added value. Milk production therefore has an important environmental role, has an enduring impact on the cultural landscape and is an important employer in rural areas;

6. stresses that the liberalisation of the dairy market must not adversely affect food security in the internal market or lead

to unjustified shifts in current consumer preferences. Nor must it lead to new market distortions in terms of production and consumption within and between the Member States, between north and south or east and west, or with respect to third countries;

7. is of the opinion that the reform process needs to take account of regional and structural differences in dairy farming and the dairy industry. In many regions, most milk is produced on small and medium-sized family farms while in other areas, milk production is dominated by large agricultural holdings. The reforms to the dairy sector must therefore not put these structures at risk, particularly those that contribute to sustainable growth;

8. takes the view that the diversity of structures in the dairy industry must also be taken into account, as it has a major impact – through the wide range of products, from regional specialities to innovative products designed for sale – on the supply of high-quality, safe and healthy dairy products in the European Union;

9. expects that the phasing out of milk quotas will result in milk production shifting more towards favourable locations, which will present significant challenges for the regions affected;

10. points out that both milk production and, in particular, milk processing involve high investment costs and labour-intensive production and processing, and therefore have long cycles and need planning security;

11. observes that milk producers are paying closer attention to market signals and adjusting their operations accordingly, but that considerable additional efforts are needed to ensure that they can survive in a liberalised dairy market;

12. given the nutritional benefits, would encourage the EU and authorities within Member States to actively promote the European School Milk Scheme to encourage healthy eating habits for children;

Challenges in a liberalised dairy market

13. expects a set of reforms to rationalise the market for milk and milk products and create a transparent environment governed by rules jointly accepted by market players who are on an equal footing;

14. considers increasing price volatility to be one of the biggest challenges facing milk production in the regions. Due to their continuous production methods, with long production cycles, it is vital for milk producers to be able to maintain liquidity and overcome market crises;

15. therefore sees measures and options to minimise the revenue risk as an important component of the process of reforming the dairy sector. It must be possible, using sectoral, regional and Community risk management mechanisms, to provide milk producers with an adequate guarantee of planning security: in this connection, hedging mechanisms for the processing sector could be just as important as the option of compensation of risks for a sector or a producers' cooperative;

16. notes that innovation and research are key factors in successfully and sustainably developing the sector but also highlights, in this connection, the need to provide consumers with reliable information;

17. is convinced that opening up the markets and removing production quotas will increase export potential both for products tailored to non-EU markets and for regional specialities and premium-quality products;

18. anticipates that considerable efforts will be required in order to realise this potential, and that small and medium-sized enterprises, which are a characteristic part of the EU's regional dairy production, the dairy sector will need additional support in this respect and in developing regional value chains;

19. stresses that the liberalisation of the dairy market and measures to promote exports could lead to uncontrolled developments and changes in the current market equilibrium; therefore urges the European Commission to examine the impact on the production and supply chains of opening up the markets and liberalising the dairy market and the possible results in terms of shifts in domestic consumption;

Market developments

20. takes note of the Commission's report on the dairy market, which highlights the degree of influence that global market developments have on the European dairy sector and

shows how important market measures (intervention, private storage and export refunds) were in stabilising the milk price at a low level in 2009;

21. acknowledges that the unusually high milk prices in 2007 were mainly caused by low supply and high demand worldwide;

22. points out that the 2009 crisis in the dairy market, when prices fell to historic lows in Europe, was influenced by weak export demand caused in part by the global economic crisis, and by an oversupply of milk; at the same time would welcome a European Commission investigation into the factors influencing the retail price of milk;

23. stresses that the impact of the crisis in the dairy market varied across the regions, but particularly threatened the survival of milk producers all over Europe who had invested in their businesses;

24. agrees with the Commission that milk deliveries in the EU will continue to increase, with a particular emphasis on increased processing into cheese and fresh milk products that can be both sold in the European Union and exported;

25. acknowledges that, in some Member States where revenues from milk are relatively high, the national milk quotas are already largely irrelevant and that in these regions there is a greater response to positive market signals;

26. shares the Commission's view that global product markets have a major influence on prices and market developments in the EU and that the EU's ability to absorb the release of intervention stocks is particularly important to market stability in export-oriented product segments, however, also expects proposals from the Commission on new measures which will benefit all regions across the EU;

27. points out that, during the dairy market crisis alone, 4.5 % of butter production and 27.4 % of skimmed milk production was subject to intervention, and around 262 million kilograms of cheese, around 559 million kilograms of whole milk powder and just under 133 million kilograms of butter were disposed of with the aid of export subsidies;

Strengthening the market position of milk producers and competition issues

28. welcomes the recommendations of the High Level Experts' Group (HLG) on milk with regard to its investigation into the medium- to long-term challenges for the milk sector and its comprehensive overview of the organisation and structure of the value chain in the Member States;

29. highlights the results produced by the HLG on milk relating to the diversity and regional specificities in the organisation of milk producers and in milk processing structures;

30. points out that more than half of the milk produced in Europe is sold by producers in a processing cooperative;

31. notes that, in many regions of the EU, private firms and dairy cooperatives are important in supporting regional milk production, opening up future markets and developing successful, market-oriented, innovative products;

32. shares the view of the HLG on milk that, in the course of the ongoing liberalisation of the market, the competitive position of milk producers will need to be examined and strengthened;

33. points out in this connection that there are big differences between the regions in the organisation of milk producers: while the market in some regions is dominated by large businesses, other regions have a combination of medium-sized private businesses and dairy cooperatives. Some regions, however, are still lagging behind in improving supply-side structures;

34. regards the Commission's proposal to promote the use of milk delivery contracts as a real opportunity to give milk producers greater planning security and clarity for their milk deliveries;

35. notes that any requirement to draw up milk delivery contracts must not disrupt the internal market or lead to market distortions in the cross-border trade in milk;

36. therefore urges the Commission to be careful to ensure that contracts are completely freely negotiated in line with EU competition rules;

37. highlights the benefits that recognised milk producer organisations provide for producers and processors, particularly with regard to pooling milk and in contract negotiations for milk deliveries;

38. observes that there is a particular imbalance in the value chain in places where milk producers do not have the option of forming cooperatives to market their milk;

39. underlines the need to strengthen the suppliers' side in the value chain, particularly in a dairy market where prices are defined with no state regulatory or measures;

40. supports the European Commission's initiative of introducing certain common rules for milk producer organisations in the EU so that all milk producers in all regions have the option of joining forces, including across borders;

41. points out that some Member States and regions have many years of experience with milk producer cooperatives that sell their milk deliveries collectively;

42. welcomes the organisation of milk producers at European level, but notes that this organisation must take account of regional characteristics;

43. therefore thinks it would be appropriate to continue to allow Member States to recognise producer organisations and associations thereof in the milk sector under national law, in line with certain requirements under EU law;

44. acknowledges that standard rules at EU level are necessary for transnational producer organisations and associations;

45. also advocates that new rules on contract negotiations with producer organisations and their associations should be developed in line with the harmonised system;

46. feels that rules on associations of producer organisations should not be laid down in delegated acts, as they relate to key elements of the common market organisation;

47. calls on the Commission at least to ensure that the survival of existing milk producer organisations is not threatened and to examine carefully which rules and requirements are of use in the recognition of milk producer organisations, so that they can successfully market their milk in accordance with specific features of the sector and regional structural differences;

48. feels that transitional rules may be appropriate for milk producer organisations that have already been recognised;

49. feels that it is inappropriate to apply the limits on milk pooling by milk producer organisations to vertically integrated milk producer organisations that process milk;

50. calls for the option to be provided of re-examining the ceilings for pooling, in order to ensure that competition on the dairy market is not restricted or eliminated;

51. very much welcomes, in this connection, the possibility of reducing the national ceiling to an appropriate level in order to safeguard regional and national competition in the milk sector. It is crucial to protect existing small and medium-sized dairies from barriers to competition, to ensure their survival and thus the success of the region's milk production;

52. welcomes the Commission's proposal to authorise sectoral organisations in the milk and milk products sector, in order to give real impetus in terms of research and development, promotion of organic production and sales promotion;

53. is aiming to ensure healthy competition that gives all market participants a proportionate share of added value;

54. urges the Commission to review the rules for producer and sectoral organisations regularly, to give all those involved in the milk value chain a reliable basis for pooling and long-term market orientation;

55. appreciates that the Commission needs good-quality, up-to-date information on the market, but has concerns regarding the use and appropriateness of this information, which could have an impact on a volatile market that is vulnerable to speculation;

Market measures

56. notes that a reliable, responsive safety net that can react quickly and effectively to unusual changes in the market or prices is a requirement for a forward-looking EU milk production;

57. therefore calls for the time limits for intervention periods to be removed, so that crises can be responded to quickly and effectively;

58. calls for the reintroduction of subsidies for private storage of cheese in the EU in the event of crisis, in order to provide an appropriate safety net for production, which is increasingly focused on cheese;

59. underlines the key importance of measures to stabilise the dairy market and urges the Commission to retain the option for export subsidies in the event of crisis, under strict conditions;

60. has doubts about the effectiveness of reducing EU milk production by 1 or 2 %, subject to compensation;

61. has concerns regarding the structure and feasibility of a voluntary reduction in production in return for compensation, as a scheme of this kind would encourage speculation and provide considerable scope for abuse. Such a scheme would also discourage producers from adjusting their production to market developments on their own initiative.

II. RECOMMENDATIONS FOR AMENDMENTS

Amendment 1

Recital (6)

Text proposed by the Commission	CoR amendment
(6) There is a problem of price transmission along the chain, in particular as regards farm-gate prices. Conversely, during 2009 the supply of milk did not react to lower demand. Indeed, in some large producer Member States, in reaction to lower prices, farmers produced more than in the previous year. Value-added in the chain has become increasingly concentrated in the downstream sectors, notably with dairies.	(6) There is a problem of price transmission along the chain, in particular as regards farm-gate prices. Conversely, during 2009 the supply of milk did not <u>reacted in some cases to only a limited extent</u> to lower demand. Indeed, in some large producer Member States, in reaction to lower prices, farmers produced more than in the previous year. Value-added in the chain has become increasingly concentrated in the downstream sectors, notably with dairies .

Reason

Milk producers' response to the crisis in the dairy market varied across the Member States. According to the Commission's report, there was an overall reduction of 0.6 % in milk deliveries in 2009 compared to 2008.

In terms of share in value-added, the demand side (commerce) usually has the advantage over the supply side (producers and processors).

Amendment 2*Article 122*

Text proposed by the Commission	CoR amendment
In point (a) of the first paragraph of Article 122, the following point is inserted after point (iii): '(iiia) milk and milk products;'	In point (a) of the first <u>A new fifth paragraph is inserted in</u> of Article 122; the following point is inserted after point (iii): '(iiia) milk and milk products; ' <u>The Member States shall recognise producer organisations in the milk and milk products sector under the same conditions as paragraph 1(b) and (c).</u> <u>Any other conditions of recognition shall be laid down by the Member States.</u> <u>The Commission shall, if appropriate, adopt implementing provisions for transnational producer organisations in this sector, including administrative assistance to be given by the relevant competent authorities in the case of transnational cooperation.'</u>

Reason

Including the milk and milk products sector in Article 122(a) of Regulation (EC) No 1234/2007 would result, under Article 124(1) of the Regulation, in a definitive, complete regulation that would undermine existing operational regulatory systems at national level. In order to ensure that it remains possible to recognise producer organisations under national law and in line with EU law, the milk and milk products sector should be regulated not, as proposed, under Article 122(a) of the Regulation but for example in a new fifth paragraph of Article 122. This would take account of national differences and respect the subsidiarity principle.

Standard rules at EU level may be necessary for transnational producer organisations, and the proposal therefore authorises the Commission to adopt common implementing provisions for this sector.

It is up to the Member States, however, to lay down any other conditions for recognition. This also takes account of national differences and respects the subsidiarity principle. It means that the Member States have sole responsibility for laying down any other conditions for recognition.

Amendment 3*Article 126a(3)*

Text proposed by the Commission	CoR amendment
In Chapter II of Title II of Part II, the following Section IIa is inserted: '[...] Article 126a Contractual negotiations in the milk and milk products sector [...] 3. For the purposes of this Article, references to producer organisations shall also cover associations of such producer organisations. In order to ensure that these associations may be appropriately monitored, the Commission may, by means of delegated acts, adopt rules on the conditions for recognition of such associations.'	In Chapter II of Title II of Part II, the following Section IIa is inserted: '[...] Article 126a Contractual negotiations in the milk and milk products sector [...] 3. For the purposes of this Article, references to producer organisations shall also cover associations of such producer organisations. In order to ensure that these associations <u>producer organisations and associations thereof</u> may be appropriately monitored <u>in connection with the contractual negotiations regulated in paragraphs 1 and 2</u> , the Commission may; <u>adopt rules</u> by means of delegated acts; adopt rules on the conditions for recognition of such associations.'

Reason

Article 126a of the draft lays down rules on contractual negotiations in the milk and milk products sector. The authorisation for the Commission to ‘adopt rules on the conditions for recognition of such associations’ by means of delegated acts does not fit in with the structure of Article 126a of the draft and should therefore be deleted.

It is, however, worthwhile to lay down rules concerning appropriate monitoring of both producer organisations and associations of producer organisations with regard to the contractual negotiations regulated in paragraphs 1 and 2.

The Commission should therefore be authorised, in the second sentence of Article 126a(3), to adopt delegated acts in this regard for producer organisations and associations thereof.

Amendment 4

Article 126b (NEW)

Text proposed by the Commission	CoR amendment
	<p>The following Article 126b is inserted after Article 126a:</p> <p><u>‘Associations of producer organisationsAn association of producer organisations in the milk and milk products sector shall be formed on the initiative of recognised producer organisations and may carry out any of the activities of a producer organisation. To this end, Member States may recognise, on request, an association of producer organisations where the Member State considers that the association is capable of effectively carrying out those activities.</u></p> <p><u>The Commission shall, if appropriate, adopt implementing provisions for transnational associations of producer organisations in this sector, including administrative assistance to be given by the relevant competent authorities in the case of transnational cooperation.</u></p> <p><u>Any other conditions of recognition shall be laid down by the Member States.’</u></p>

Reason

Rules on the recognition of associations of producer organisations are essential aspects that should not be included in delegated acts – as provided for in the second sentence of Article 126a(3) of the draft – but should be laid down in the Regulation itself.

Standard rules at EU level may be necessary for transnational associations of producer organisations, and the proposal therefore authorises the Commission to adopt common implementing provisions for this sector.

It is up to the Member States, however, to lay down any other conditions for recognition. This also takes account of national differences and respects the subsidiarity principle. It means that the Member States have sole responsibility for laying down any other conditions for recognition.

Amendment 5*Article 204*

Text proposed by the Commission	CoR amendment
In Article 204, the following paragraph is added: '6. As regards the milk and milk products sector, point (iiia) of the first paragraph of Article 122 and Articles 123(4), 126a, 177a, 185e and 185f shall apply until 30 June 2020.'	In Article 204, the following paragraph is added: '6. As regards the milk and milk products sector, point (iiia) of the first <u>fifth</u> paragraph of Article 122 and Articles 123(4), 126a, 126b, 177a, 185e and 185f shall apply until 30 June 2020.'

Reason

See amendments 2 and 4.

Amendment 6*Article 185f(2)(c)*

Text proposed by the Commission	CoR amendment
iii) the duration of the contract, which may include an indefinite duration with termination clauses.	iii) the duration of the contract, which may include an specific or indefinite duration with termination and renegotiation clauses

Reason

The basic elements of contracts should provide the greatest possible flexibility, which will benefit producers and processing firms equally.

Brussels, 12 May 2011.

*The President
of the Committee of the Regions*
Mercedes BRESSO