

REPORT OF THE CONFERENCE ' THE EU DAIRY SECTOR: DEVELOPING BEYOND 2015' 24 SEPTEMBER 2013

The conference 'The EU dairy sector: developing beyond 2015' held on 24th September 2013 brought together the actors of the dairy supply chain, as well as representatives of the EU institutions, Member States and experts from research and economic bodies. The purpose of this conference was to explore what will be the most likely trends in the EU milk sector after the quota system is abolished in 2015, and consequently assess whether the instruments currently in place are adequate to face the new challenges or whether additional instruments were needed and feasible.

A series of topics were discussed in the framework of two main subjects: *market balance and competitiveness* on the one hand, *sustainable milk production including its territorial dimension* on the other.

Introduction and presentations

The Conference was opened by Dacian CIOLOS, Commissioner for Agriculture and Rural Development, by [REDACTED] of Lithuania, President in Office of the Council and [REDACTED] of the Committee on Agriculture and Rural Development of the European Parliament.

Commissioner CIOLOS highlighted the questions at the heart of the conference: is the milk sector well equipped to live through milk quota expiry? If not, what tools could be developed? He asked participants for pragmatic ideas that are feasible from a technical, budgetary and political point of view.

Mr [REDACTED] recalled the importance of the milk sector in the Union and Mr [REDACTED] put the emphasis on the achievements made so far in the CAP reform process and the role played by the European Parliament.

Mr Herman VERSTEIJLEN, acting Deputy Director General for Agricultural Markets, Direct Payments and Economic Analysis at the European Commission presented the latest market situation and the perspectives for the milk sector in the years to come, showing the relevance of EU exports, and therefore the importance of EU international competitiveness to maintain internal market balance.

Experts then presented the results of various studies carried out on the milk sector. Summaries of their presentations are included as annexes to the present report.

The six independent experts coordinated by Ernst & Young came to the conclusion that a reinforcement and timely use of existing CAP tools would be appropriate to accompany the milk sector beyond 2015. The European Milk Board (EMB) presented the idea of confining price fluctuations within a tunnel and operating a supply management system. The Movement for a World Organisation (MOMAGRI) presented a second price tunnel model. Copa-Cogeca (European farmers and agricultural cooperatives) took stock of available instruments for the milk sector under the CAP.

Discussion (workshops and plenary session)

Subsequent discussion took place in two parallel workshops on the above mentioned topics and continued in a concluding plenary session. Participants had the opportunity to ask questions to the various experts and to express their position. No overall consensus emerged from the exchange of views. The various views expressed are summed up below.

As regards **market balance and competitiveness** (theme moderated by Prof. [REDACTED]), four main elements were introduced and further discussed:

- Situation and perspectives of the European milk sector in the global markets;
- Volatility of dairy prices and instruments to cope with it;
- Effectiveness of the dairy supply chain;
- Market transparency.

The importance of international markets for the EU dairy sector was noted. The future of the EU internal market balance will also depend on developments on the world market, which are expected to bring new opportunities for the European milk sector (Copa-Cogeca, EDA¹). Such opportunities can only be genuine if they generate enough added value for farmers to cover their production costs (EMB).

Despite prevailing political uncertainties in some major importing markets, demand is expected to grow at a steady pace on the world market. Demand is currently strong and partly met by EU exports, which play a crucial role in maintaining overall balance of the domestic market.

Volatility (both for dairy product prices and for input prices) is one of the major challenges for the years to come. Divergent opinions emerge on its importance for the milk sector and on how this issue should be tackled.

Price fluctuations are a normal economic process which exists in all business segments and cannot be avoided (EDA). Some experts look at it as an opportunity that can be managed by using risk management instruments that are market based.

The instruments currently in place in the Single CMO (safety net) proved to be effective in the past, and could be reinforced in periods of serious crises. In that respect, a prompt intervention in the market should be ensured, in order to avoid that the measures are taken too late. Reference prices might be revised upwards (EDA) but up to a level that would not encourage overproduction.

For some participants, current instruments are not enough to cope with volatility, and therefore to ensure a decent (cost-covering) price for farmers. EMB proposal based on a price corridor coupled with supply management decisions generated controversial opinions. There were some positions favourable to adapting the market tools to production costs (production costs are expected to be triggering future crises, rather than milk prices, according to Spanish delegation). In addition, these participants are of the view that a supply management solution might ensure that actors take on board their responsibility in times of crisis (French delegation).

¹ European Dairy Association

But others believe this system would not be efficient as it is based on assumptions of farmers' behaviour, which might eventually change before the perspective of the implementation of a particular measure. Furthermore, limiting price fluctuations to a corridor would prevent farmers from receiving price signals, hence disturbing the market (EDA).

In addition, regulating milk production volumes would ignore the integration of the EU sector in the world market (Copa-Cogeca, EDA). If a supply management measure is to be implemented at EU level, the volumes to be reduced should be much bigger than those suggested by EMB (1-2%), in order to have an influence on world prices, in fact the present exportable surplus of about 10% of EU milk production (EDA). Besides, these participants think that any system based on historical figures should be avoided, especially when there have been structural limitations. That would prevent farmers from exploring their actual productive potential, with a negative effect on their competitiveness (EDA).

Production management has been applied in the EU for the last 30 years, and it did not prevent farm abandonment (Copa-Cogeca). Growth is the only way to attract young people to the milk sector. Cutting production will lead to uncompetitive prices with the rest of the world, bringing loss in domestic production and higher imports.

The cost covering approach is not easy to conciliate with a market economy (Prof. [REDACTED]). Price cannot be calculated based on production costs. There might be areas in the EU where it is not possible to produce cost-covering at prevailing market prices, but in this case there are already a number of solutions to handle that, notably under the second pillar. According to EMB, a cost-covering policy is a matter of public authorities will (as it is already the case for the regulation of the energy market in Germany).

The concern on covering costs should not only be tackled by intervening on prices, but by improving the efficiency of the farms and reducing their production costs (Spanish university professor). Average figures on production costs hide an important fact: there is a great heterogeneity within regions. Indeed, there might be a difference of 100% in production costs among farmers having the same market constraints and same climate. Costs differences are not due to structural differences (size, or farmer age), but to their management abilities. The improvement of the management systems in farms should be fostered, in order to have more efficient farmers.

The income stabilisation tool is an interesting and rather unexplored instrument, according to some independent experts. There are similar experiences throughout the world (e.g. in the US) worth to be analysed. Its implementation could be coordinated together with a market based tool to hedge volatility (of milk prices and feed prices). However, given the way this instrument is currently conceived under the 2nd pillar, doubts arise about its proper funding. Also because of its voluntary nature, the tool will only benefit to some farmers, whereas crises will affect all at the same time.

Some independent experts and participants felt there's an unbalanced distribution in added value throughout the supply chain. Producer organisations (POs) should have an appropriate size to be effective, in particular to deal with the higher concentration in dairies.

The role of POs and Interbranch Organisations (IBO) is regarded with scepticism by some independent experts. Their role would be quite limited in redistributing bargaining

power, given the current concentration at dairies' level. In addition, the ability of a PO to obtain a higher price than the market price is doubted (Copa-Cogeca). Nevertheless, they might bring other added values in terms of organisation of the production, logistics or services.

The role of the IBOs should be strengthened at EU level, and not at MS level, in order to avoid interferences of national competition authorities. A mediator would be necessary, since a PO will never be big enough to negotiate with the industry on an equal footing (COAG², Spanish farmer union). Same rules of the game should apply throughout the EU for the dairy sector. There should therefore be less flexibility in the Milk Package, not to have such big difference between different Member states (ASAJA³, Spanish farmer union).

There was a broad agreement on the unbalanced weight in favour of the retailers in the supply chain. Market asymmetries should be avoided (world market prices going up and domestic prices going down), and sales below costs should be banned (Glanbia, Copa-Cogeca).

In terms of transparency, the idea of implementing a European Observatory was broadly welcomed. That would be in line with the early warning system put forward by some experts. It remains to be defined what information will be monitored, on top of what is currently being reported by the Member States and how such information will be disseminated. The Observatory should be able to monitor the margins (Spanish delegation) and facilitate not only information at producer level but also from the industry and the retail (Austrian Delegation). The Observatory, as a third party, should be able to certify production costs (EMB).

Also for the sake of transparency, consumers should have all the information so they can make a choice. Marketing standards could be introduced in the Single CMO (as for fruits and vegetables or beef) together with compulsory origin labelling, which in addition would highlight the difference in production costs from region to region (Coldiretti, Italian farmer union).

Regarding the **sustainability of milk production including its territorial dimension** (theme moderated by Prof. [REDACTED]), the following ideas were put for discussion:

- Identify the environmental, social and economic consequences of milk quota abolition;
- Find instruments to counter potential negative effects in two types of regions: those characterised by production drop or abandonment and those where production intensification creates unsustainable indebtedness risks;
- Assess whether existing instruments are sufficient, notably the Milk Package and the possibility it has introduced for supply regulation of PDO/PGI cheeses, but also the new single Common Market Organisation emerging from the CAP reform, notably the possibility for public intervention in crisis times, and increased opportunities under rural development programmes.

² Coordinadora de Organizaciones de Agricultores y Ganaderos

³ Asociación Agraria de Jóvenes Agricultores

Two main threads of thoughts emerged from the debate: while some urge for new instruments to be developed, others believe that existing CAP instruments are appropriate to cope with possible difficulties in future.

In terms of sustainability, there is a need to find instruments to counter potential negative effects in most vulnerable regions.

There are divergent developments between regions: 25% of countries/regions are expected to produce more, but 50% of countries/regions are expected to produce less. The two production models that are emerging are not sustainable. Those who will increase production are attaining environmental, animal welfare and financial limitations. On the other hand, too small holdings are not sustainable either (Committee of the Regions).

The future of the sector depends on young people. Better tools should be in place to encourage them. They can be motivated only if they see that the sector is profitable. To make it profitable, more market transparency and better access to market is needed (CEJA⁴). Milk production abandonment is at least partly due to the fact that young people are discouraged to become farmers. Key performance indicators should be introduced to compare farmers with a view to reduce inefficiencies (Copa-Cogeca). Farms' autonomy in terms of feed, energy, etc. should be enhanced and partnership for knowledge transfer and advisory network should be promoted (DG ENV).

The economic and social fabric in the various regions of Europe should be maintained. The importance is not only the volume of production but the people behind it. The European model cannot be based on intensification, higher environmental impact, or slaughtering young animals. EU citizens are asking for something different (Via Campesina).

Farmers can look for opportunities within the existing CAP framework, notably through more cooperation. They can build their own capacity, notably through operational groups in partnership. 3.5 billion € are available for research programmes. Farmers can strengthen their position through POs. Producer groups can benefit from financial support under Pillar 2 (Copa-Cogeca, Breiz-Europe⁵). The diversity of regions is the richness of Europe. Regional problems call for regional solutions and the second pillar of the CAP contains all necessary tools. Cooperation between farmers can also help (EDA).

As regards the territorial dimension of the EU milk production, some experts consider that EU farms will continue with the trend that already exists, with a shift in regions where milk is produced. Size will continue to rise, and commercial dairy farms will be bigger. Smaller farmers will go for a niche: local production or particular brands.

Milk quota expiry will accelerate milk production abandonment in a number of regions, notably in the Baltic States, Romania and Bulgaria and the Southern Member States (except the Po Valley) to the benefit of some Northern Member States (Committee of the Regions).

Milk abandonment will depend on what the true alternatives are for milk production (beef production, for instance) (Copa-Cogeca).

⁴ European Council of Young Farmers

⁵ Agri-food lobby organization representing the interests of the Brittany Region.

The importance of milk will increase in the world, while milk quota expiry will lead to abandonment in outermost regions. The richness created by milk production must be redistributed throughout the Union, notably to counterbalance the transport handicap of outermost regions. Specific operational programmes under the partnership agreements (EU, MS and regions) should be conceived for outermost regions, to let them benefit too from the opening of the market. The programme should stimulate competitiveness, not to fund inefficient farms, but to stimulate brands and qualities of those regions, thinking on exports. But they also need compensation in terms of transport and collection costs (MEP [REDACTED]).

Existing CAP instruments must be fully used to maintain activities in mountain areas (Euromontana). The crucial point is not to develop new instruments, but to find the necessary financial resources to make the best out of available tools (MEP [REDACTED]).

Closure

The conference was closed by Jerzy PLEWA, Director General for Agriculture and Rural Development at the European Commission, who stressed the consensus on the need for transparency, so that changing trends can be identified earlier and market signals are conveyed to all actors involved without delay. The Commissioner's announcement of a future Market Observatory is fully in line with this. The details of that Market Observatory need to be further developed. A combination of a Market Observatory with the existing possibilities opened by the CAP reform, in particular with regard to crisis situations, will help accompany the milk sector beyond 2015. Member States are encouraged to make full use of all possibilities opened by the CAP reform for the milk sector, in particular with regard to rural development programmes targeted at fragile areas.

Mr. Plewa also announced that moderators, experts and DG AGRI services would draw a conference report to be transmitted to the Council of the European Union and the European Parliament for further discussion.

Annex I: EY Analysis on future developments in the milk sector, prepared for the European Commission – DG Agriculture and Rural Development.

Conclusions regarding market balance and competitiveness:

Quota expiry does not seem to represent a decisive element in determining market perspectives, as quotas are no longer binding in most of the Member States.

World demand for dairy products is expected to increase, notably in emerging economies. Market prospects for European dairy products in the international markets are expected to be generally positive.

Price dynamics appear to be the most crucial factor affecting perspective of the dairy sector. There is a broad consensus of the experts in prospecting higher volatility for the years to come.

The safety net is regarded as an effective instrument (as proved in 2009 crisis) and should be strengthened. Its functioning could be improved by implementing a preventive early warning system.

Risk management tools (i.e. futures markets) and income stabilisation mechanisms as envisaged in Pillar II were suggested as effective instruments for risk hedging.

Producer Organisations (and APOs) could represent appropriate tools to alleviate asymmetries in the supply chain, and they should be reinforced in the near future. Their effectiveness to improve the producers' bargaining power was questioned. However they can be valuable instruments for disseminating information, saving transaction costs in negotiations between producers and processors, developing market niches with higher value added, and supporting the development of new products. To be effective enough, it should be ensured that POs have an adequate size (appropriate incentives could be given to increase their size, or a minimum size could be established by law).

Price and volume information asymmetries in the chain could be eliminated or reduced by the creation of a clear price and volume information platform.

In the period following quota removal, international competitiveness of the European Union in the world market will be enhanced. This improvement will be mainly driven by shifts of production from less productive regions to regions with more marked comparative advantages.

A buy-out scheme would not be an appropriate instrument to deal with price volatility; its implementation would present serious technical and management drawbacks. In addition, a decrease of EU exports might be expected if such a system was implemented.

Conclusions regarding sustainable milk production including its territorial dimension:

Overall, the milk sector and its contribution to the vibrancy of rural areas will continue to follow the trends that it has had in the last years without experiencing major changes.

The milk sector already plays a relatively marginal role in most of the regional economies. In addition, no region is completely dependent on dairy farming (crop or cattle farming is always an alternative).

Milk production will tend to be more concentrated in larger and more efficient farms, as it has been the case in the recent years (this autonomous development is not expected to be exacerbated by the removal of the milk quota system). However, growth in production in these areas is likely to be restrained by environmental limitations. Environmental degradation is thus regarded as one of the main challenges for the years to come. Experts propose to research on how to limit the environmental impact of an increase in production in areas favourable for milk production, and to avoid encouraging the establishment of very intensive systems without land.

Experts diverged to some extent when identifying the regions that could experience more difficulties. They nevertheless coincided in spotting mountain areas (notably in AT, ES, FR, IT, PT and GR), northern regions in SE and FI, and some regions in Central Europe (SL, SK, CZ, HU) as the most vulnerable ones. The experts proposed performing a precise mapping of high risk areas/regions and farming systems.

The lack of investments was identified as a major drawback for most of those regions. Experts propose to introduce measures to stimulate investment: facilitate access to capital for farmers, improve training/qualification of farmers, encourage generational change.

However, regions with a high contribution of the dairy sector in the overall regional socioeconomic balance are usually characterised by the presence of strong emotional bonds between the family and the farm, due to the characteristics of the farm in terms of ownership, labour applied and solvency. This will partly alleviate the risk of land abandonment.

If milk production has to be preserved in 'strategic' areas (even if they are not competitive enough), coupled payments should be maintained. This measure could be complemented by supporting quality designations (PDOs, PGIs, etc.) and fostering policy instruments with the aim of preserving landscapes in regions with ecologically valuable habitats.

Experts suggest promoting regional economic resilience (identifying strengths of the region in terms of professional skills, knowledge and experience, authentic character, touristic attractiveness, potential of alternative agricultural products) as well as stimulating the creation of new networks to develop new commercial activities. These activities could be funded through CAP funds as well as Structural Funds.

Annex II: Monitoring Agency: Flexible Management of EU Milk Supply (Expertise commissioned by the European Milk Board)

Forecasts and projections might be positive regarding the evolution of the dairy market (i.e. OECD-FAO outlook), but the reality can be different, as it was proved in the 2009 crisis.

EU milk market has gone through a liberalisation process, and the risk of surplus production and falling farm gate prices exists. EU milk prices are now more exposed to the volatility of global milk prices.

One year after the 2008/09 crisis, every third dairy farmer in Europe who was still farming in 2007 (EU-27) had given up. If there are any more crises Europe runs the risk of losing its extensive milk production. The less favoured areas and mountain regions are particularly endangered here.

Current market instruments (notably safety net and milk package) are not sufficient to cope with a severe crisis. Even if the price have risen, they do not cover the cost of milk production

The global milk market brings some opportunities, but also many risks: few speculative participants, environmental and climate-related risks, risks related to international financial markets.

An eventual uncontrolled milk surplus might challenge the stability of EU markets and prices, leading to a similar situation to the one seen in Switzerland.

The limits to growth of production in EU milk regions are almost reached, because of the lack of available land (competing with biofuels) and technical/biological limitations. In addition, the society is concerned about ethical questions.

Past experiences (delivery boycott in Germany in 2008, public buy-in in 2009, reduction in milk supply in 2012) prove that a withdrawal of milk from the market has a stabilising effect in times of crisis.

Consequently, EMB proposes a reliable and flexible framework:

- to cope with milk price volatility, stabilise supply and demand in milk markets
- to stabilise prices at a level covering cost of production
- to strengthen the resilience of EU milk producers
- to stabilise production of milk also in less favoured areas, mountain areas and Eastern Europe
- to mitigate the risks resulting from global milk market influences

To do so, EMB proposes to constitute an EU-wide monitoring agency with market surveying functions, composed by representatives from producers, consumers, industry and public administration. Following a market analysis performed at least every four months, the agency would make recommendations for the milk volume to be produced. These recommendations would be enforced either via the public administration, or via the producer organizations. A control body would assure the implementation at the level

of individual farms and producer organisations, triggering penalties in case of non-compliance.

The agency would estimate the full costs of milk production in Europe and, based on this, calculate a range for the EU-27 average target farm-gate milk price (price corridor). As soon as the observed EU average raw milk price is outside this range, the agency would propose to increase or decrease milk production.

The instruments to put the agency in place would be:

- Individual farm quota.
- Reserve constituted by 3-5% of individual quotas. Additional delivery rights are limited in time.
- Voluntary production cuts against compensation.
- Implementation through public tender
- Funding: through super levy and private market regulation fund.

Annex III: Momagri proposal for a new CAP market regulation tool.

Agricultural markets cannot regulate by themselves. Volatility is a structural component of agricultural markets (because of natural hazards and specificities of the market). The unregulated liberalization of international agricultural markets generates systemic risk, and increasing price volatility.

CAP-momagri proposal advocates for:

- Improving the competitiveness and the functioning of European agricultural markets, ensuring a less volatile income.
- Increasing the economic effectiveness of European market regulation measures,
- Securing the European agricultural production potential, and therefore optimizing food safety,
- Promoting investments in the short, medium and long term,
- Improving the sustainability of the agricultural sector (for the producer, consumers and intermediate players), from the economic, social and environmental perspectives,
- Optimizing the effectiveness of the overall budget Common Agricultural Policy, especially in times of crisis.

The instrument proposed consists in a price-based system, setting a number of thresholds around an equilibrium price, which would automatically trigger different market measures:

- “Floor” price: triggering counter cyclical payments.
- “Intervention” price: triggering public buying-in.
- “Ceiling” price: triggering the release of public stocks.
- “Financial solidarity” threshold: triggering a solidarity tax.

The equilibrium price has been set by Momagri at 35 c/kg until 2009, and at 37 c/kg onwards. Floor and ceiling prices would be set at ± 2 c/kg respectively, and intervention and solidarity thresholds at 22 c/kg and 44 c/kg respectively.

According to a simulation made by Momagri, in the period 2006-2012 the application of this model to the milk sector would have represented an expenditure of 4,9 billion € (compared to the actual expenditure on 8,2 billion €).

Following an impact projection for the period 2013-2020, and considering a realistic scenario (which takes into consideration market volatility and foresees three crises in 2016, 2017 and 2019), Momagri model would save 44 billion € for the whole period, when comparing with the actual CAP budget (1,5 billion € savings per year only if applied for the milk sector).

The impact of the potential application of this model in different member states would differ significantly: in Italy CAP-Momagri expenditure would be 3% below actual CAP

expenditure; in the United Kingdom, on the contrary, CAP-Momagri expenditure would be 11-15% higher. In France, the CAP-Momagri expenditure would have been lower between 2006 and 2013 (-3%) but higher between 2013 and 2020 (+2%).

One drawback of this system would be its compatibility with the WTO classification, since the direct payments (green box) would be substituted by counter cyclical payments (orange box). However Momagri believes there is *marge de manoeuvre* within the WTO to legitimate this kind of payments.

Further work should be envisaged in order to improve the modelling of medium-term price based on the Momagri model. A European observatory for a short term outlook should be implemented, to support the decision making process. In addition, budget rules should be redesigned to make them more flexible, and the community public intervention should be conceived in a multi-annual framework, to better cope with price volatility and crises.

Annex IV: Stocktake of the EU Dairy Policy post 2015, by Copa-Cogeca

Copa-Cogeca believes that European dairy policy should ensure that the following three strategic objectives are met: mitigate the effects of extreme volatility, a better income for milk producers and ensuring dairy production is carried out across the entire European Union with the aim of maintaining vibrant rural areas and improving the competitiveness of farms.

Given the increasing world demand for dairy products, it is important to gain access to emerging markets and improve our access to countries where we already export in order to benefit from it. Certain bilateral trade negotiations (EU-USA, EU-Canada) represent strategic opportunities for EU exporters of dairy products.

Given the future CAP budget reductions, including for direct payments, it will be more essential than ever that future dairy policy ensures that milk producers can secure sustainable levels of incomes from the market place so that they can continue to develop their businesses.

Future European dairy policy must promote, encourage and support investments in productivity and competitiveness at farm level to help farmers cope with green growth.

Since milk production occurs in every Member State with a positive impact on rural areas including less favoured areas, milk producers need to have all the conditions in place for milk production, taking into account the high costs in these areas, in order to have a balanced and sustainable development of these regions.

In a context of extreme market volatility, it is vital to secure existing market measures such as public intervention, private storage and export refunds. Future dairy policy may need to provide for an increase in the intervention buying-in price levels taking into account that production costs have increased considerably. A better efficiency of public intervention could be also achieved through maintaining and improving the functioning the advisory group on milk.

The income stabilization tool could help farmers manage the effects of risks and uncertainties. In addition, a margins insurance scheme could be investigated. Anyhow, supply management tools should be avoided, since they would not be effective in a globalised market. On the contrary, dairy trade derivatives market as a risk management tool should be further investigated as a possible tool to help dairy farmers and cooperatives alleviate the impact of price volatility

Copa-Cogeca is reflecting on possible voluntary options for a price-based approach, complementarily with the “milk package” provisions.

Initiatives such as fixed price contracts between milk purchasers and international customers in view of engaging for a portion of the product sold in fixed price contracts already exist and should be encouraged.

Producer organisations will play an important role in providing added-value and in reducing farm production costs. However, we need to keep in mind the central role of dairy cooperatives in offering milk producers a better price.

It is of uttermost importance that the “milk package” is well implemented and that a national framework is available for milk producers. Should there be a need for other tools

to be introduced, these must be complementary to the “milk package” provisions and only of voluntary character for milk producers.

There is a need to make the whole supply chain act more responsibly towards the primary producer by ensuring a fair share of the milk price. Legislative measures should guarantee producers fair contractual conditions and the respect of principles of good trading practices.

There is a need to reduce the administrative burden of the School Milk Scheme so that more schools can apply for the aid, to increase the Union aid/kg of milk and to allow that the scheme includes milk which is used to prepare meals in school canteens. Educational training programmes on milk production, quality and characteristics could also be considered. Further simplification of the current guidelines on milk and milk products under the EU horizontal promotion scheme should be looked at.

Producer Organisations could play a role in the reduction of production costs and support should be granted through the rural development programme for the rationalisation of feed costs/improving resource efficiency, improving energy efficiency and energy autonomy of dairy farms and uptake of renewable options, for measures to reduce labour costs, promotion of new breeding technology, improving biosecurity, improving milk solids etc.

The use of the optional quality term “mountain product” is a key instrument for recognizing the efforts carried out by milk producers in mountainous regions and for enhancing and adding value to their production in order to better promote mountain milk as a specific brand. There is a need to support milk collection costs in mountainous areas and areas with small-scale structures. Investment support needs to be ensured to dairy cooperatives in mountainous and disadvantaged regions. It is extremely important that this is not limited to SMEs. There is a need for an efficient coordination of supply between producers and processors in mountainous regions.

Agri-environmental payments should be better targeted to preserve biodiversity on grassland, with special attention to steep slopes in view of preserving and maintaining the cultural landscape in mountainous areas.