



EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

Directorate L. Economic analysis, perspectives and evaluations
L.3. Microeconomic analysis of EU agricultural holdings

Brussels, 26/07/2010

Unit L3 D agri.l3(2010)501056

NOTE TO DG AGRI HEADS OF UNIT

Subject: Policy focus - The Dairy crisis and the post-2013 policy debate

You will find attached two paper copies of the Policy focus about the dairy crisis and the post 2013 policy debate which is available on internet.

http://ec.europa.eu/agriculture/analysis/fadn/reports/dairycrises_2010.pdf

The policy focus sums up in a nutshell the main aspects of the dairy crisis and introduces the stakes for the dairy sector in the frame of the post 2013 policy debate. It enables to access different analyses of Directorate L on various aspects of the crisis in the dairy sector.

If you would like to receive additional copies of the Policy focus, you can contact the secretaries of the Unit L3, [redacted] (Tel. 58 033) and [redacted] (Tel. 81 021), or [redacted] (Tel. 80 839, [redacted] @ec.europa.eu).



Head of Unit

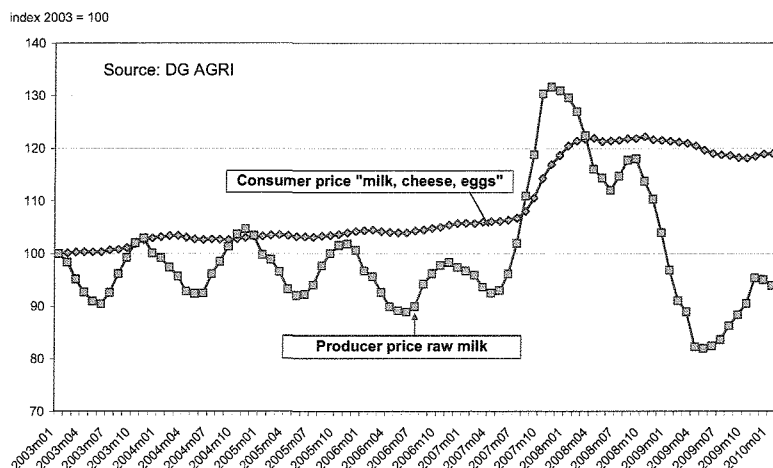
Annex: Policy focus about the dairy crisis and the post 2013 policy debate

C.C.: DG + DDG + D + M. [redacted]

The Dairy crisis and the post-2013 policy debate

EU dairy markets are returning to more normal conditions. But the recent experience of exceptional price developments has expanded the focus of the policy debate to include the full spectrum of the food chain.

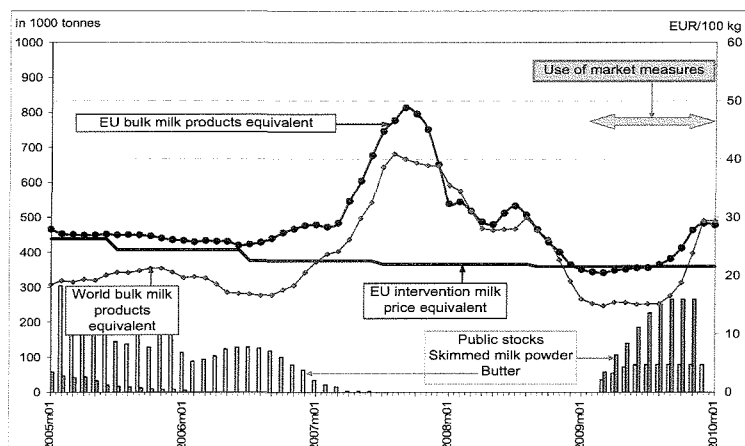
Development of EU producer and consumer prices



EU dairy prices peaked in 2007, driven by weather-related world supply concerns. But producer prices dropped substantially from the beginning of 2008 until the summer of 2009 due to the combined effect of world supply recovery and a slowdown in demand due to the economic crisis.

Consumer prices increased during the price spike, but did not follow the path of producer price decline. This is indicative of an increase in processor and / or retailer margins resulting from imperfect price transmission along the food supply chain.

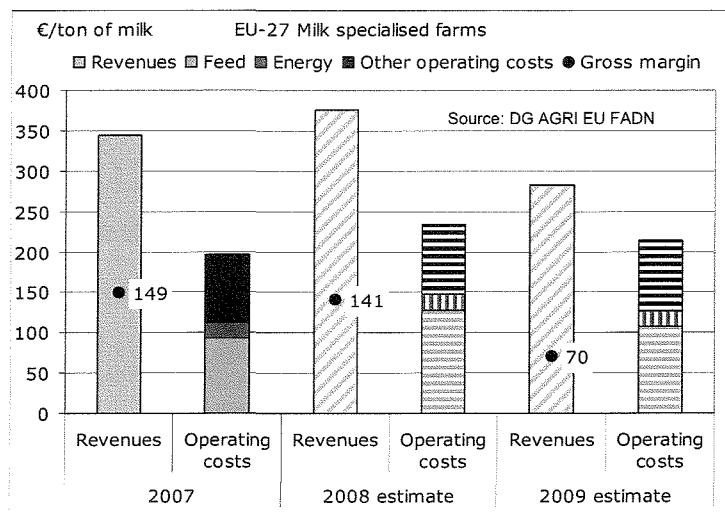
EU and world milk price developments



EU price developments mirror world price developments, even though trade in dairy products represents only a small share of world milk production.

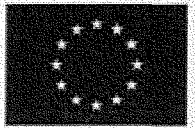
The use of available market measures from January 2009 to beginning 2010 has been effective in limiting the drop in EU prices. The purchase of public stocks provided a necessary buffer to mitigate the downward path of prices, although their accumulation could delay a quick price recovery to some extent.

Trend in EU dairy farmers' margin 2007-2009



During the dairy crisis, input prices did not follow the trend in output prices. This was a reflection of the fact that input prices are increasingly driven by factors beyond pure agricultural markets (energy prices, exchange rate movements and the financial situation). This had an impact on dairy farmers' margins which decreased by more than half from 2007 to 2009.

For market management and policy design, it will be therefore crucial to assess whether this feature was exceptional or whether it will become a more permanent feature.



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These events have come to shape the discussions on future dairy policy. While in the shorter term strong public intervention may tackle the symptoms, the dairy sector has to look beyond the recent bust. As income growth and demand recover, competitiveness of the sector will become crucial for farmers to benefit from the market. Future dairy policy is discussed in the High Level Expert Group on Milk, which will issue its final report by the end of June 2010. The key issues are: contractual relations between farmers and dairies, bargaining power of milk producers, transparency and information to consumers, market instruments, futures and volatility. The discussion will continue in the debate on the CAP after 2013.

These issues have been the focus of a series of analyses by DG AGRI. More information can be found on:

The dairy supply chain

The Commission published a number of staff working documents on price transmission, price transparency and competition in the chain in October 2009, together with the Commission Communication on a better functioning food supply chain in Europe:

http://ec.europa.eu/economy_finance/articles/structural_reforms/article16028_en.htm

Price developments for agricultural commodities and food

The Commission monitors EU and world prices (including dairy) and publishes monthly reports:

http://ec.europa.eu/agriculture/analysis/markets/foodprices/index_en.htm

http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/index_en.htm

Prospects for agricultural markets and income in the EU

The latest report gives EU projections for 2008-2015 for all major sectors:

http://ec.europa.eu/agriculture/publi/caprep/prospects2008/index_en.htm

Comparative analysis of projections for agricultural commodity markets

This report compares projections by OECD-FAO, FAPRI and USDA. The most recent report focuses on the economic recession:

http://ec.europa.eu/agriculture/analysis/tradepol/worldmarkets/outlook/2009_2018_en.pdf

The economic situation of dairy farms in the EU

The latest report analyses milk margins and income trends to assess the impact of the dairy crisis at farm level:

http://ec.europa.eu/agriculture/analysis/fadn/index_en.htm

Milk Quotas and Future Dairy Policy

The Health Check impact assessment on milk quotas provides useful background for the discussion on future dairy policy, analysing the economic, social and environmental impacts of the milk quota removal:

http://ec.europa.eu/agriculture/healthcheck/ia_annex/d2_en.pdf

Several external studies on removal of quotas have also been commissioned by the Directorate General:

http://ec.europa.eu/agriculture/analysis/external/milkquota/index_en.htm

http://ec.europa.eu/agriculture/analysis/external/milk/index_en.htm

CAP Post-2013 policy debate

The following documents and studies provide useful background.

This Brief looks at developments in the CAP since 1992, when the first substantial reforms took place and briefly considers the challenges for the future:

http://ec.europa.eu/agriculture/publi/app-briefs/01_en.pdf

This discussion paper (December 2009) asks what we want from EU agriculture, why we need a CAP and what the policy consequences are:

http://ec.europa.eu/agriculture/cap-post-2013/reports/why_en.pdf

The Scenar 2020-II study (external study published in March 2010) is an update of an earlier study on the future perspectives and challenges facing European agriculture.

http://ec.europa.eu/agriculture/analysis/external/scenar2020ii/index_en.htm