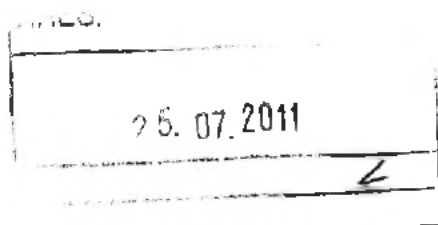


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DG AGRI  
European Commission

Brussels, 19<sup>th</sup> July 2011

**Re: Copa-Cogeca contribution regarding the milk sector and the future of the CAP post 2013**



As part of the current discussions on the future of the CAP post 2013, Copa-Cogeca would like to share with you its views regarding the milk sector and the future of the CAP post 2013.

Dairy farming takes place in almost every region of the EU and taking into account the large number of actors it employs, can play an important role in achieving the growth objectives set out in the Europe 2020 Strategy.

The main challenges the dairy sector will have to face in the future will be the fight against extreme market volatility, thus stabilising, protecting and improving the income of milk producers. Maintaining and developing dairy production throughout Europe, including in less-favoured areas, will be essential.

Given these new challenges, measures to avoid market disturbances and to stabilise the markets are needed. It is very important that the European Union maintains its capacity to intervene on the market by ensuring adequate tools and by adapting them in order to provide a timely reaction to crises (for example, through tools available for use throughout the year, integrating the trend in production costs over a representative period of time into the revision of the reference price, extending storage to products with higher added-value, such as long-life cheese).

Dairy farmers provide important services to society by assuring a safe and secure supply of goods, produced in a sustainable way. These services are not remunerated by the market. The support currently granted has to be maintained in order to safeguard the future of the dairy sector.

Moreover, so that the diversity of agricultural production in Europe is taken into account, the EU should consider the following:

- a grassland payment, which would ensure the maintenance of the landscape and contribute to carbon sequestration
- continuation of coupled support (per dairy cow) targeted at certain types of dairy farming which are vulnerable from a socio-economic point of view (art. 68 of Council Regulation 1234/2007).

In addition, maintaining the measures in Pillar 2 (for "new challenges") which contribute towards the restructuring of the dairy sector remains equally important.

More detailed considerations can be found in the annex.

Yours sincerely, 



LP(10)6410:4

18<sup>th</sup> April 2011

**Copa-Cogeca contribution on milk production and the future of the CAP post 2013**

**Introduction to the sector**

Dairy farming is undertaken in almost every region of the EU and, as such, it makes up an important part of our agricultural production (30%). In addition to this, the dairy sector is also an important source of beefmeat (around 60% of beefmeat produced in Europe comes from the dairy herd).

Any reform should take into account three fundamental principles: stability, balance and predictability in the dairy sector. European milk producers should mainly gain their income from the market; more specifically from the price of milk. Dairy producer income should be enough to live from and to enable production in the future as well as guarantee investments made by producers. If this is not the case, then there may be severe repercussions for food security and land management in rural areas.

Bearing in mind the large number of actors employed either directly or indirectly by the dairy sector, it has a considerable role to play in re-launching the economies of many European countries. It has the potential to make a significant contribution to achieving the objectives for growth set out in the European Union's 2020 strategy.

**Main challenges for the medium and long term:**

1. to stabilise, protect and improve the income of milk producers;
2. to maintain and develop dairy production throughout Europe, including in regions with natural handicaps and other less favoured areas, in order to guarantee food security and the existence of agricultural economic activity which provides European society with many services.

Therefore:

3. assure that supply and demand on the Community market are balanced whilst bearing in mind the EU's capacity for exporting dairy products to the global market<sup>1</sup>;
4. stabilise the market; preventing and fighting extreme volatility on markets and in dairy producer income;
5. support investments which are vital for dairy production. Incentives for restructuring (continued development) should be part of the long-term strategy for the European dairy sector bearing in mind that effective dairy production brings many benefits for society. The strategy should take a Community-level approach and should be adequately flexible to reflect the specific situations in the various EU Member States.

The type of measures:

<sup>1</sup> The equivalent of around 7% of European production is exported to the global market. The majority of these exports do not benefit from export refunds.

- a. investments in modernisation, improvements to milk processing and marketing (adding value to products) and cooperation with a view to developing new products, processes and technology
- b. efforts to adapt to and attenuate the effects of climate change, efficiency in term of energy and water use, preserving genetic diversity, and animal welfare. Housing conditions for cows could be a key area for innovation.
- c. setting-up young farmers and early-retirement schemes
- d. advisory services, training and development
- e. improving the quality of production and agricultural produce
- f. helping farmers to adapt to high standards
- g. incentives to encourage producers to work together

### **Priority sectoral proposals**

#### **I. Milk and dairy product markets**

European producers must remain globally competitive particularly given the EU approach of opening markets.

Taking into account the new challenges, measures to avoid market disturbances and stabilize markets are essential for the future of the sector.

##### **1. Public regulation to stabilise markets in times of crisis**

- It is imperative that the European Union maintains its capacity to intervene on the market in times of crisis and when the market is very unbalanced by having a wide range of instruments managed at Community level.

Focus must be placed on:

- maintaining all existing Community tools for the dairy sector and dairy herd;
- adapting the way that these tools function, particularly by assuring that they can be triggered quickly (and pre-emptively in order to prevent potential market disturbances), adapting the availability of these tools throughout the year and creating flexibility in the differentiation of these tools between milk fat (butter) and milk protein (powder and cheese).
- integrating the trend in production costs over a representative period of time into the revision of the reference price (intervention price);
- the strategic role of public and private storage of dairy products is important, as recent years have shown. Measures relating to storage should be able to be applied to products with higher added-value, such as long-life cheeses<sup>2</sup>.

##### **2. Economic organisation of production and other measures, such as transparency and market information**

We support the measures included in the 'Milk Package' and want to see them implemented before the quota system is withdrawn.

<sup>2</sup> e.g. Grana Padano, Parmigiano Reggiano, Fiore sardo Pecorino, Provolone etc.

## II. Support for farmers to top up markets

**1. Direct payment:** this payment under the first pillar of the CAP is the only way of achieving the type of farming that European citizens want: not only food safety and security, but also producing sustainably and maintaining the essential contribution which dairy farming makes to employment and the economic prosperity of rural areas throughout the EU. This should be maintained beyond 2013 and should only be available to active farmers.

Farmers cannot provide these services if they depend only on the market. The majority of dairy farms in the EU are specialised.<sup>3</sup> European milk producer income depends on direct payments (on average more than 50% of dairy farmers' incomes) as well as the price of milk. It also depends on the price of co-products such as beefmeat (between 5% and 15% of the gross product of the farm).

The livestock sector remains a vulnerable agricultural production sector. Currently, European dairy producers need strong support in order for them to be able to earn a living, deal with the aforementioned challenges and remain internationally competitive bearing in mind the very high production standards they must achieve in order to meet European society's demands. It is for this reason that both the CAP budget and, more specifically, all the support received by dairy farmers need to be maintained. At the same time, we must ensure that there are fair competition conditions in all Member States and that budgetary funds are used as effectively as possible without creating any unnecessary bureaucracy.

### 2. Additional payments for specific situations:

- Less Favoured Areas (compensation for natural handicaps): should remain in the 2<sup>nd</sup> pillar while maintaining harmonised criteria at Union level and re-evaluating additional costs when calculating compensatory payments.

The options outlined below are cumulative and complementary. In this way we could take into account the diversity of agricultural production in the EU. Some of this support (e.g. livestock farming on grass) could be subject to conditions through contractual commitments of at least three years.

- Grassland premium: better recognising the positive characteristics created by permanent or temporary grassland (non-market public goods, such as environmental protection through a positive effect on water quality, fighting erosion and floods particularly using hedges, carbon storage, contributing to biodiversity, preventing fire and avalanche risks, maintaining open and lively landscapes and contributing to the quality of foodstuffs) which add value to one third of the European UAA. A grassland payment could provide additional support based on a well-defined Community framework.
- Coupled support (per dairy cow): could be targeted at certain types of dairy farming which are vulnerable from a socio-economic point of view (e.g. in areas with natural handicaps or isolated regions, types of farming which bring public benefits such as animal welfare). Member States should be given the option to continue granting additional support based on a Community framework which is well-defined and limited in terms of its budget in order to avoid distortion of competition between Member States (maintaining specific sectoral measures, such as the type included in Art. 68 of Regulation 1234/2007)<sup>1</sup>.

### 3. Encouraging restructuring

Second pillar – restructuring the dairy sector to meet the 'new challenges' – these measures should be able to continue in the future<sup>ii</sup>

Given that the implementation of such restructuring funds can vary depending on the situation in different Member States, or different regions of Member States, the European Commission

<sup>3</sup> A farm is considered to be 'specialised' once its ratio [(dairy production (value) + direct payments) / (total agricultural production + coupled payment)] is higher than 50%. *Source: FADN*

should provide information to operators on the methods used by the Member States and the affected regions with the aim of creating transparency and facilitating the exchange of best practices between livestock farmers and their cooperatives.

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<sup>i</sup> Following the decisions made in the CAP Health Check on options for support, **specific support for dairy production** was introduced in many Member States (no less than 18 countries), mainly through Article 68 of Regulation 73/2009 (coupled or decoupled, but always with a budgetary limit – see Regulation 745/2010 for example).

<sup>ii</sup> see European Commission press release IP/10/102: 21 Member States decided to create this type of support with a global envelope of €716 million.