



**COPA-COGECA**

***Beef and Dairy Sector***

***Their future place within the EU Common  
Agricultural Policy***

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# Structure of the presentation

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- **COPA-COGECA**
- Common Agricultural Policy – the present and its future
- Cross-compliance
- Beef market
- Future of dairy quotas



## Since 1958

COPA = Committee of Professional Agricultural Organisations in the European Union

## Since 1959

LOGECA = General Confederation of Agricultural Cooperatives in the European Union

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- COPA-LOGECA represents 15 million people working on EU farm holdings either full-time or part-time
  - and more than 40,000 cooperatives



## What is COPA-COGECA ?

### **COPA-COGECA's tasks**

- To defend the general interests of agriculture
- To maintain and develop relations with EU-institutions as well as with representative organisations at EU level
- To look for solutions that are in the common interest

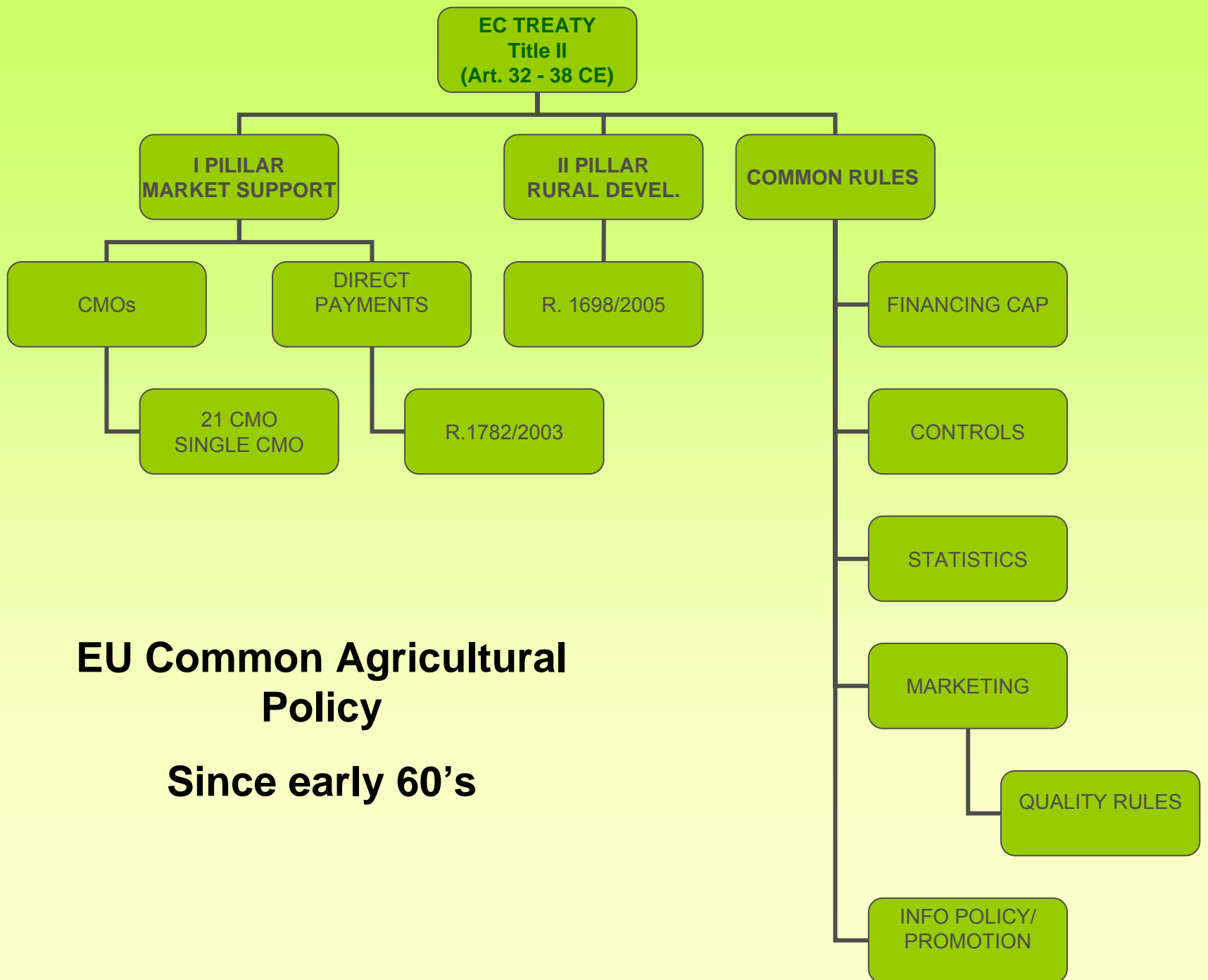
**“United voice of European farmers and their cooperatives”**



## What is COPA-COGECA ?

### **COPA-COGECA: some figures**

- COPA-COGECA has 73 Member Organisations from 25 EU Member States
- among which 32 Organisations from the new Member States
- 5 organisations from Bulgaria and Romania joining soon
- A joint Secretariat in Brussels with a staff of approx. 50
- 5 languages: EN, FR, DE, ES, IT



# EU Common Agricultural Policy

Since early 60's



# The current CAP

## 2003 - last CAP reform

- Decoupling : objectives
  - Market oriented
  - Freedom to farm
  - SPS
- Cross compliance
- Modulation (obligatory and voluntary)
- Strengthening 2nd pillar

## 2003 Reform Implementation

Timing	1 January 2005	1 January 2006
Member states	BE, DK, DE, IE, IT, LU, AT, PT, SE, UK	EL, ES, FR, NL, FI
Impact on the market	<p>End 2004 - Production increase</p> <p>Price increase during the 1st semester 2005</p>	<p>Impact less visible so far</p> <p>(partly due to the payment model chosen by the MS)</p>



**The whole impact shall be visible not earlier than in medium-term (Herd? Production? Price?)**

**The CAP reform has brought about disparities among Member states – SAPS in NMS**



## 2007

- Continuation of 2003 reform
  - Current CMOs reforms in plant production (cotton/tobacco/olive oil/hops/sugar/fruit & veg/wine)
- Simplification – the principle of further reforms
  - Substantial: Single CMO
  - Technical
    - Action plan (21 measures) e.g. 2007 dairy package (Standardisation of protein content, Adjustments of the basic dairy CMO regulation, Drinking milk regulation)
    - Cross compliance (report)
- [Constitution]

## 2008 – Health Check of the CAP

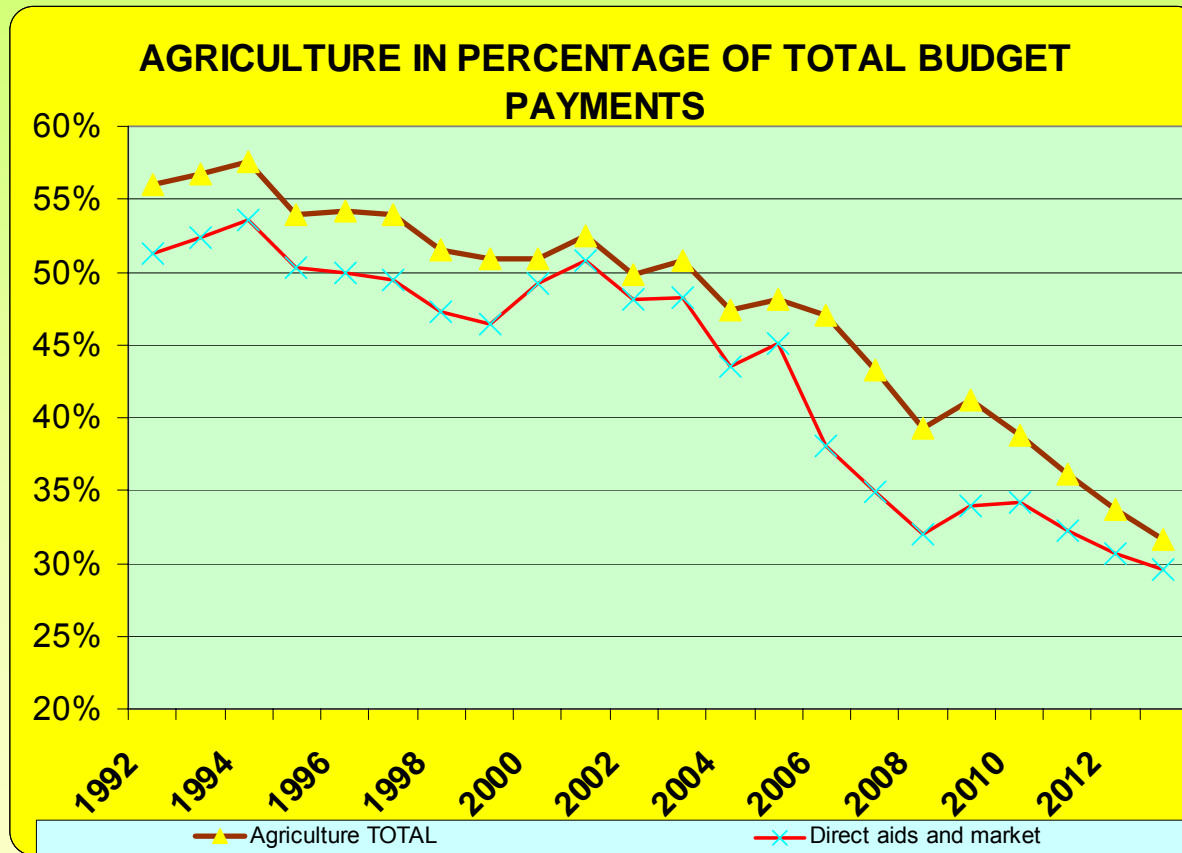
General objective: adjustments, no revolution (reform)

- Check on general provisions like:
  - Cross compliance
  - Modulation – compulsory modulation increase?
  - Decoupling – more, complete, recoupling ?
  - Compulsory set-aside – abolition?
- Check on sectorial provisions:
  - Market instruments (intervention, export refunds, quotas) in certain CMOs (dairy, starch potatoes, cereals)
- Check on further simplification:
  - SPS to SAPS?
- Capping of the total payment per farm
- Adjustments **if** the current CAP is not functioning as it should



# The future CAP

- Budget review in 2009
  - Follow up conclusions summit december 2005
  - European Commission will call for the maintenance of the agriculture budget until 2013
- the agricultural budget after 2013 will be addressed too.
- Expect further attacks on the share of the budget to be allocated to agriculture
- Avoid re-nationalisation of the CAP
- Budget to be policy driven
- Financial discipline
- Impact of health check



Future budget CAP

- Mainly direct payments;
- Limited expenditure on market support measures



# The EU Budget and farmers income

**Direct payments under pillar 1 amount to some €37 billion €/year (in 2004 prices)**

**They represent about 40% of EU farmers' net income – more in some sectors & regions such as dairy & beef**

***Market returns:*** world outlook promising but EU trade policy means more low priced imports

***Costs:*** increasing more rapidly in the EU because of increased regulations

***Direct payments:*** budgetary pressures could lead to cuts



# The future policy after 2013

## The intentions of the Commissioner:

- Role of agriculture and farmers

## Move to free market

- **by opening markets & reducing market mechanisms – abolition of all instruments after 2013?**
- **Future of market tools (CMOs):**
  - **eliminating all export refunds by 2013**
  - **removing constraints – eliminate set-aside, all coupled payments, starch, milk & sugar quotas, intervention**
  - **Alternative risk and management tools**



# The future policy after 2013

## The intentions of the Commissioner:

**Strengthening of 2nd pillar – Rural development**

**Reduce & simplify decoupled payments**

- **maintain single farm payment post 2013 but at (much?) lower level and**
- **move towards a single model of payment throughout EU**



# The future policy after 2013

**But for COPA-COGECA - 2 major priorities:**

- 1. Maximise farmers' returns from the market**
- 2. Defend maintenance of farm budget**

**Avoid the abandonment of production and  
avoid the encouragement of « sofa » farmers**





# The future policy after 2013

## **Maximise farmers' returns from the market:**

- **defend border protection**
- **Use reasonably the non-food potential**
- **combat unbalances in the food chain (supermarkets etc.)**
- **promote EU products (an EU origin label...)**
- **gain a premium for quality – protect geographical indications, promotion**



# The future policy after 2013

**But also:**

**Open markets means more exposure to world market volatility.**

**If traditional forms of market management are to be weakened/disappear - what are the alternatives:**

- **to prevent crises**
- **to compensate/protect farmers in the case of crises?**



# Cross-compliance

## COPA-COGECA's view

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The sector accepts the society demand for higher standards and conditionality of direct payments

BUT

EU Regulations reduce farmers' competitive position

- higher costs & constraints on productivity gains than their competitors

The production standards are not comparables in Europe and South America

Hidden information for the consumers ?

Study of French Institute for Animal Husbandry (2005): Cross-compliance regulations represent in the beef sector from **10% to 20% of the value of the product (depending on its price)**

Nature of the regulation	Veal for slaughter	Bovine males
Forbidden use of hormones	372	950
Forbidden use of antibiotics	54	137
Animal welfare	31	10
Meeting standards - buildings of animal husbandry	0	560
Destruction of meat and bone meals	47	480
Animal identification	5	32
Hygiene provisions - traceability	50	320
<b>Total cost (million euros)</b>	<b>528</b>	<b>2489</b>
2004 EU production (thousands teq)	775	7 225
<b>Total cost €/ kgec</b>	<b>0,68</b>	<b>0,34</b>



## The opportunities & challenges for the beef and dairy sector



## Provisional results of livestock survey of Nov/Dec 2006

Further decrease in bovine livestock of EU-25

**84.7 million head (estimate) = -1.1% compared with end 2005**

Livestock decreases in... but increases in ...

DE, UK < -2.5%

LT: + 4.8%

PL, NL, IT < -1.8%

EL: + 2.6%

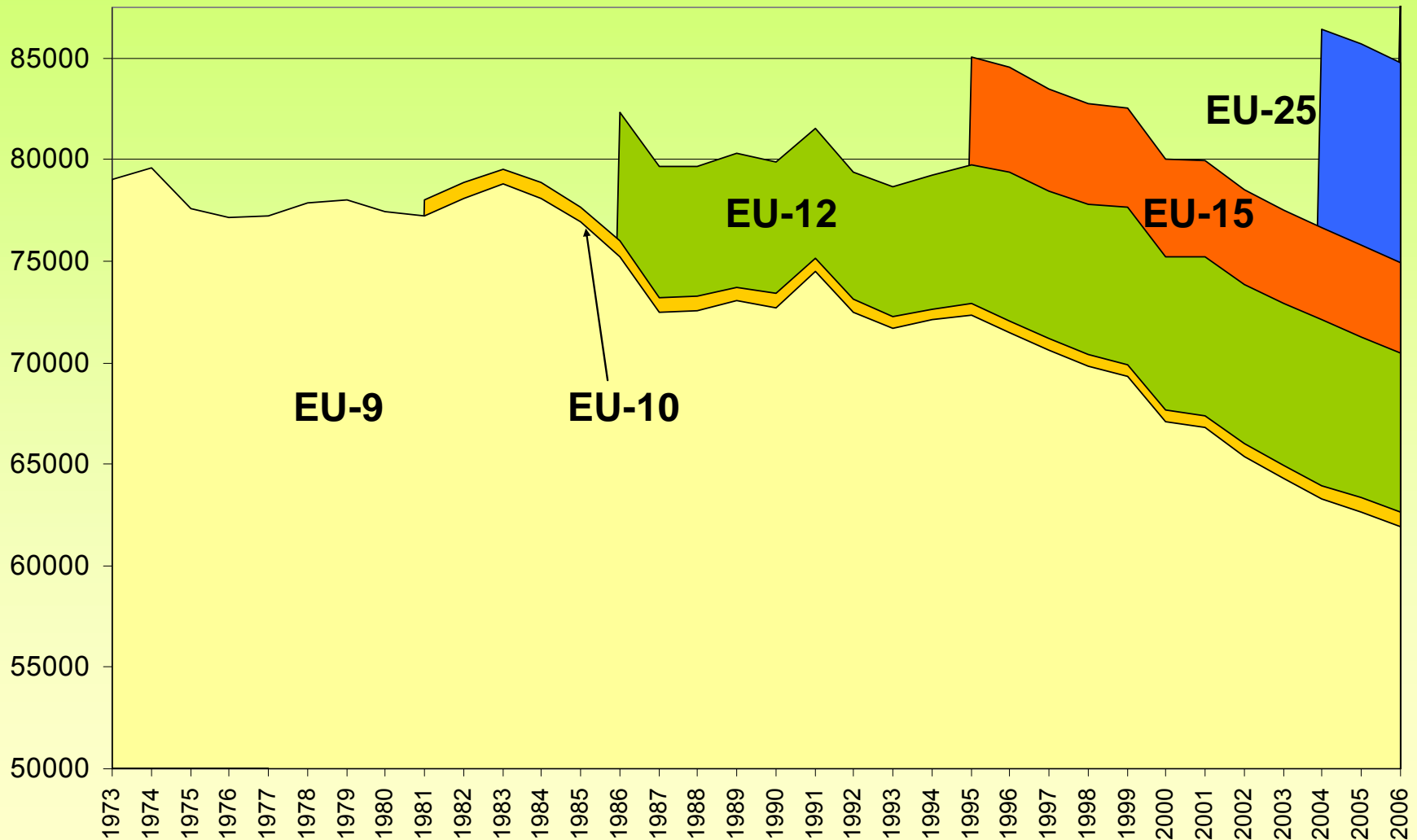
Increase in livestock in BG and RO

BG: 633.2 million head (+0.5%)

RO: 2,924.0 million head (+2.2%)

Around 2.5 Mio cattle farms across Europe (36% of EU-25 agricultural land)

# Community bovine herd - Long term trends



Source: EU Commission



- Evolution of the cow herd is similar to overall downward trend
- Dairy cows: - 1.8% (yearly EU-15 average during 1995-2005) => milk quota limits
  - Forecast : 21 million dairy cows in 2010 (EU- 25)
- Suckler cows: increase until 2000, 2000/2005 - decrease by 2% => Agenda 2000 reforms
  - 35% share in 2005 (EU-25), 12 million
  - 97% in EU-15, 73% in FR, ES, UK, IE
- Overall decrease of 1.7 million cows during 2000-2005 => impact on EU beef production





EU-27 : 2006

Production: 8.210.000 t (50% made by FR, DE, IT)

Domestic consumption : 8.630.000 t

Consumption per capita: EU-15: 20.3 kg; 10 NMS:  
6.5 kg; EU-25: 18.1 kg; BG+RO: 10.7 kg

Beef exports: 230,000 t ( >60% to Russia, mainly  
Ireland and Germany)

Beef imports: nearly 500.000 t (UK, IT, NL, DE – 80%)

# Community beef figures

## EU imports in beef sector

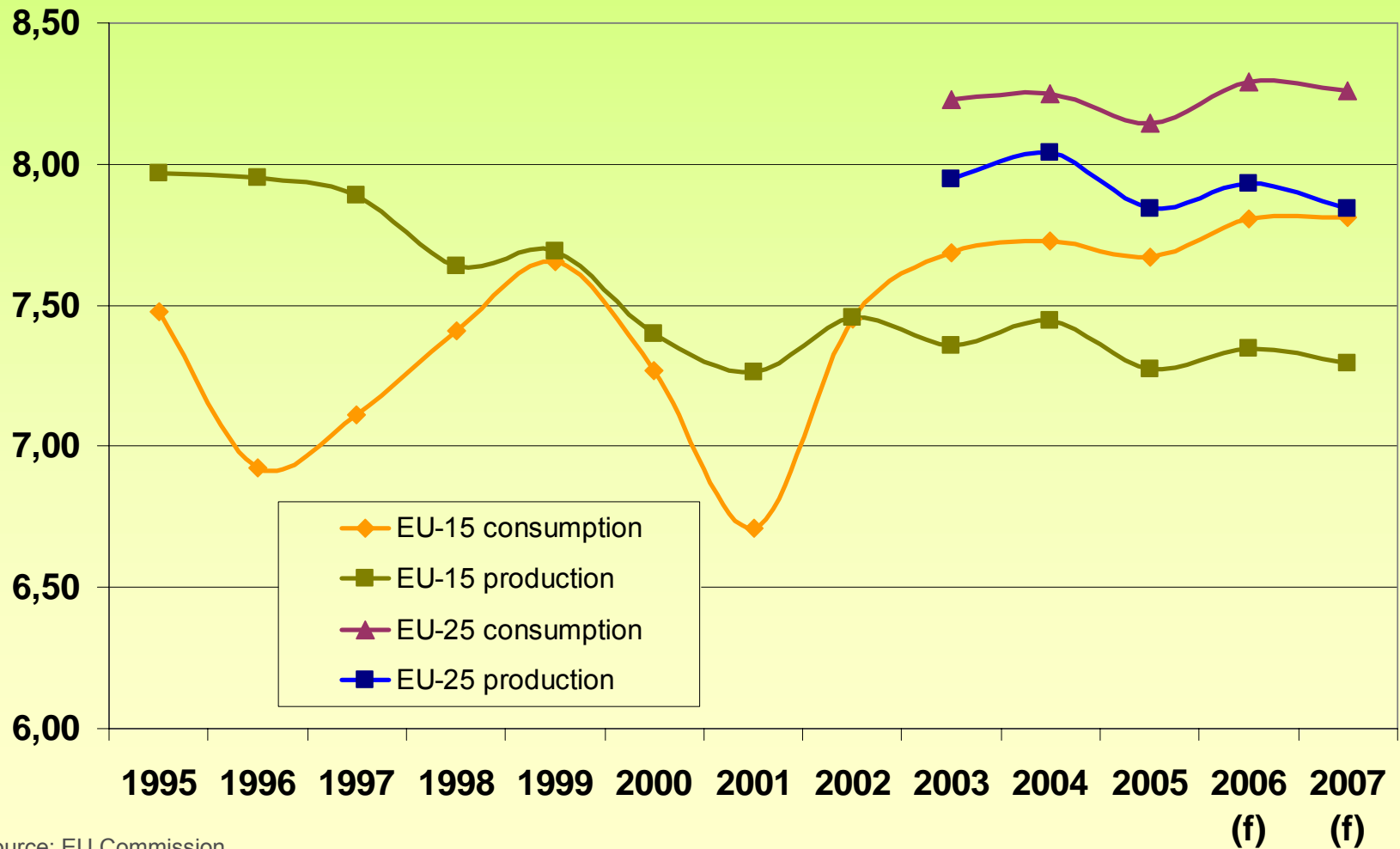


	2003		2004		2005		2006	
	tonnes	%	tonnes	%	tonnes	%	tonnes	%
Brazil	277.706	54,7%	323.926	60,2%	339.579	64,3%	331.436	66,8%
Argentina	90.222	17,8%	107.928	20,1%	108.378	20,5%	82.852	16,7%
Uruguay	27.242	5,4%	26.113	4,9%	32.079	6,1%	45.371	9,2%
Australia	6.846	1,3%	9.182	1,7%	8.408	1,6%	12.362	2,5%
New Zealand	1.084	0,2%	1.388	0,3%	1.653	0,3%	7.188	1,4%
Romania	5.993	1,2%	6.631	1,2%	6.921	1,3%	7.059	1,4%
Chile	426	0,1%	544	0,1%	2.100	0,4%	2.022	0,4%
Switzerland	2.756	0,5%	2.775	0,5%	2.107	0,4%	1.979	0,4%
EU-15/25	508.062		537.666		527.992		495.856	
Variation	6,9%		5,8%		-1,8%		-6,1%	

	2003	2004	2005	2006
0102 10 - Pure bred breeding animals	0,3%	0,2%	0,2%	0,0%
0102 90 - Other live animals	6,8%	1,3%	1,3%	1,3%
<b>TOTAL LIVE IMPORTS</b>	<b>7,1%</b>	<b>1,5%</b>	<b>1,5%</b>	<b>1,4%</b>
0201 - Fresh/chilled bovine meat	37,2%	38,4%	41,5%	39,5%
0202 - Frozen bovine meat	30,1%	31,8%	30,7%	31,0%
0210 - Salted, smoked and dried meat	0,3%	0,3%	0,3%	0,3%
1602 - Prepared and preserved meat	25,4%	27,9%	26,0%	27,9%
<b>TOTAL BEEF PRODUCTS</b>	<b>92,9%</b>	<b>98,5%</b>	<b>98,5%</b>	<b>98,6%</b>

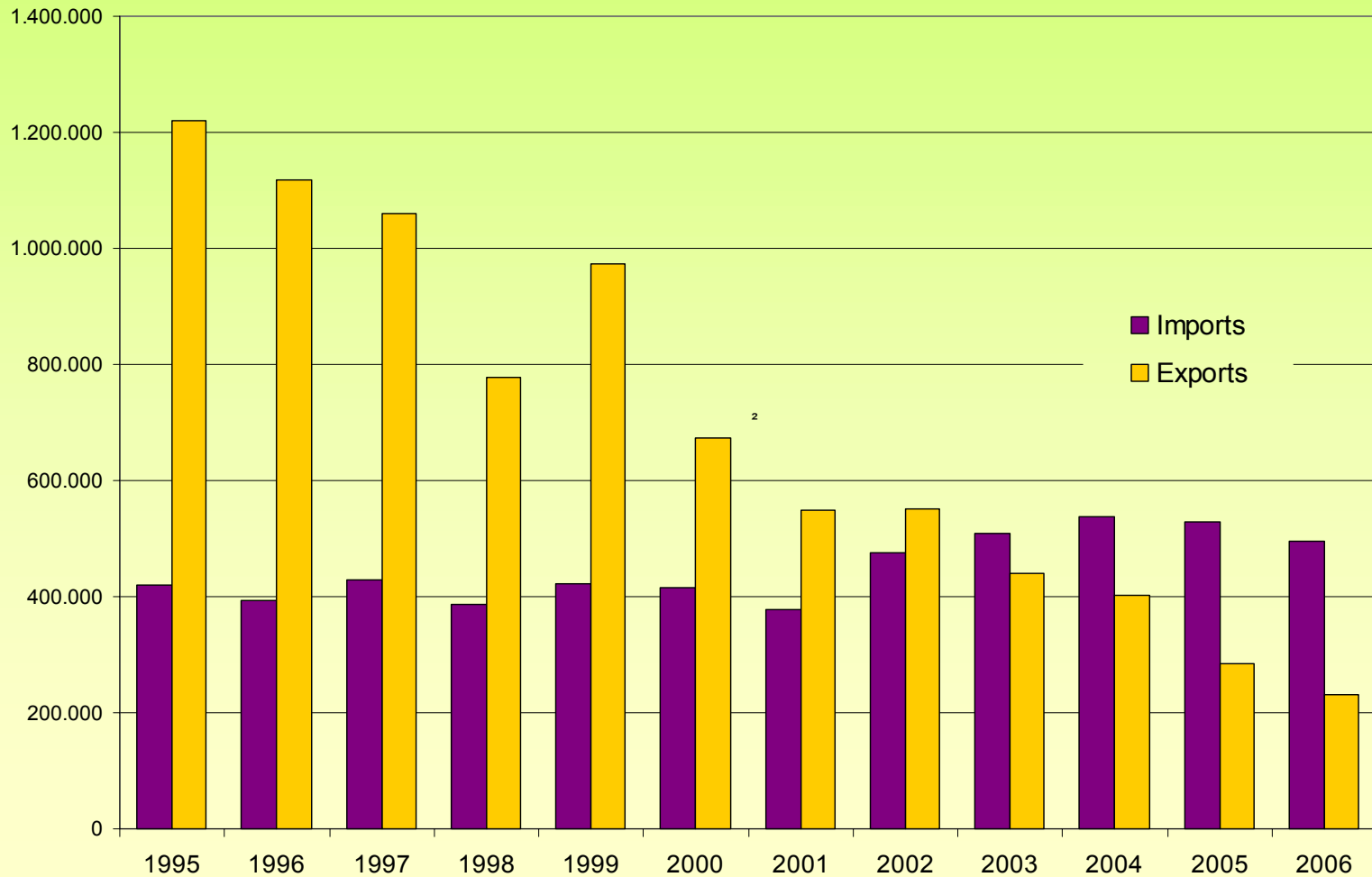


## EU beef consumption exceeding net production





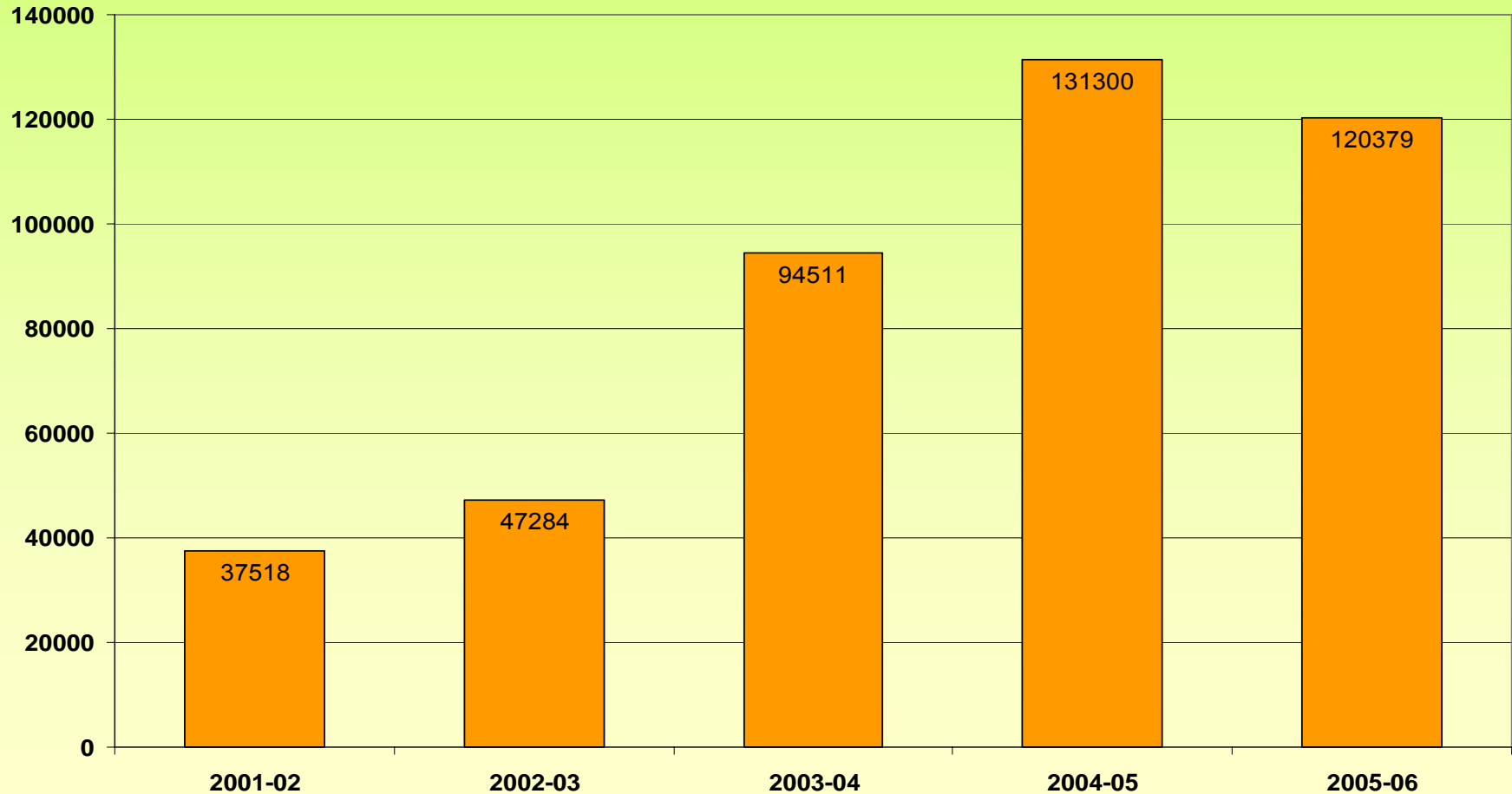
## EU increasingly a net importer of beef





## Evolution in EU beef imports at full duty

(based on import licences issued - in tonnes cwe)

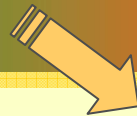




## Bulgaria and Romania accession

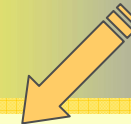
### *BULGARIA*

- \* Production: 30.000 t
- \* Exports: 126 t
- \* Imports:
  - 2004: 43.000 t
  - 2005: 65.000 t
  - 2006: 70.000 t
- \* Consumption: 99.000 t



### *ROMANIA*

- \* Production: 185.000 t
- \* Exports: 691 t
- Imports
  - 2004: 5.000 t
  - 2005: 33.000 t
  - 2006: 38.000 t
- \* Consumption: 222.000 t



Untill now not self-sufficient  
Post-accession market situation?

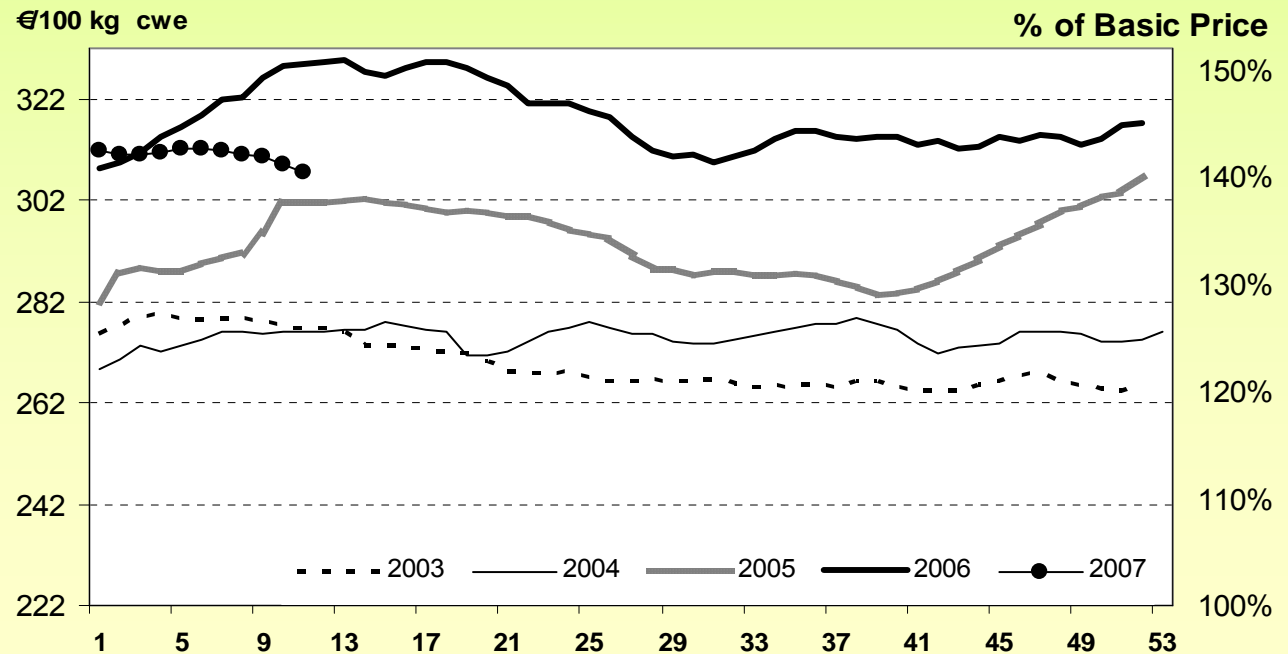


Tight supplies leading to producer prices at high levels

EU average prices of carcasses of adult bovines

€/100 kg	2003	2004	2005	2006	'06/'05
<b>Young bulls (A R3)</b>	270,2	268,9	291,9	315,8	<b>8,2%</b>
<b>Steers (C R3)</b>	254,5	276,7	284,1	299,5	<b>5,4%</b>
<b>Cows (D O3)</b>	184,1	200,7	228,2	237,8	<b>4,2%</b>
<b>Heifers (E R3)</b>	274,6	278,1	293,6	314,2	<b>7,0%</b>

EU average price of carcasses of adult male bovines

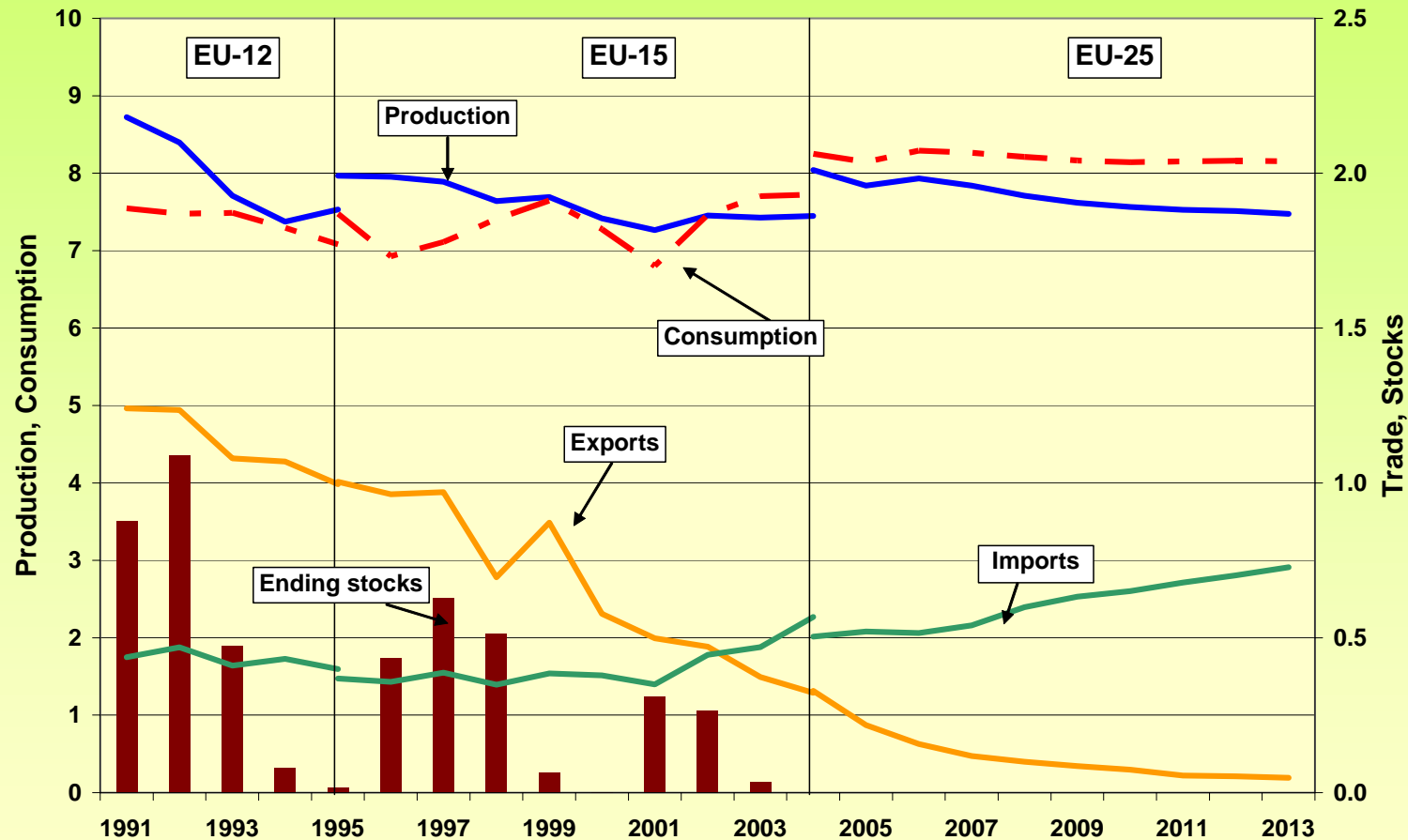




## Satisfactory prices?

- UK (2006) – average beef meat producer makes a loss of ranging from £74 (110 EUR) to £425 (650 EUR) per animal
  - If all support payments are excluded from the calculation
    - biggest loss in LFAs
- With respect to upcoming challenges, the stability of farmer's revenue is the key issue
- If farmers are to meet high standards asked for by the society, they should be given means to adapt themselves to these standards.





- Declining cattle herd from dairy sector
- Impact of decoupling of direct payments
- Impact of market disruptions of 2001 BSE-FMD crisis

Assumes *status quo* on WTO



## World market outlook is promising

### UN forecast 2006-2015:

world population growth = 1.1% annually (except Europe)

Income growth worldwide = 2.9% *per annum*

Balance rural/urban population globally – shift in favour of the urban part by 2010

## OECD&FAO 2005-2015 Forecasts

### Annual average growth rate

	Worldwide	EU-27
Beef	1.9%	0%
Butter	1.7%	- 0.1%
Cheese	1.6%	+ 1.1%

**Increased food demand in emerging economies in particular**  
**Stagnation in Europe with some exceptions**



- EU will remain an important market for beef meat
- The consumption is likely to stagnate
- The decoupling of suckler cow premium should be kept as a tool to guarantee the conservation of suckler cows herd in some MS (FR, ES, PT, AT, BE)
- On the contrary, production of young beef will depend on the European market balance. The « Health check » will determine the future of other premiums.



- Sanitary and veterinary issues
  - e.g. FMD, bluetongue, bird flu...
- Trade issues
  - WTO: « Doha Round »
  - Bilateral negotiations : ACP countries, ASEAN, Western Balkans, South Korea, Ukraine, India, Mediterranean countries, South Africa, **MERCOSUR**



## EU made a substantial offer in October 2005 on all 3 pillars of the WTO agricultural negotiations:

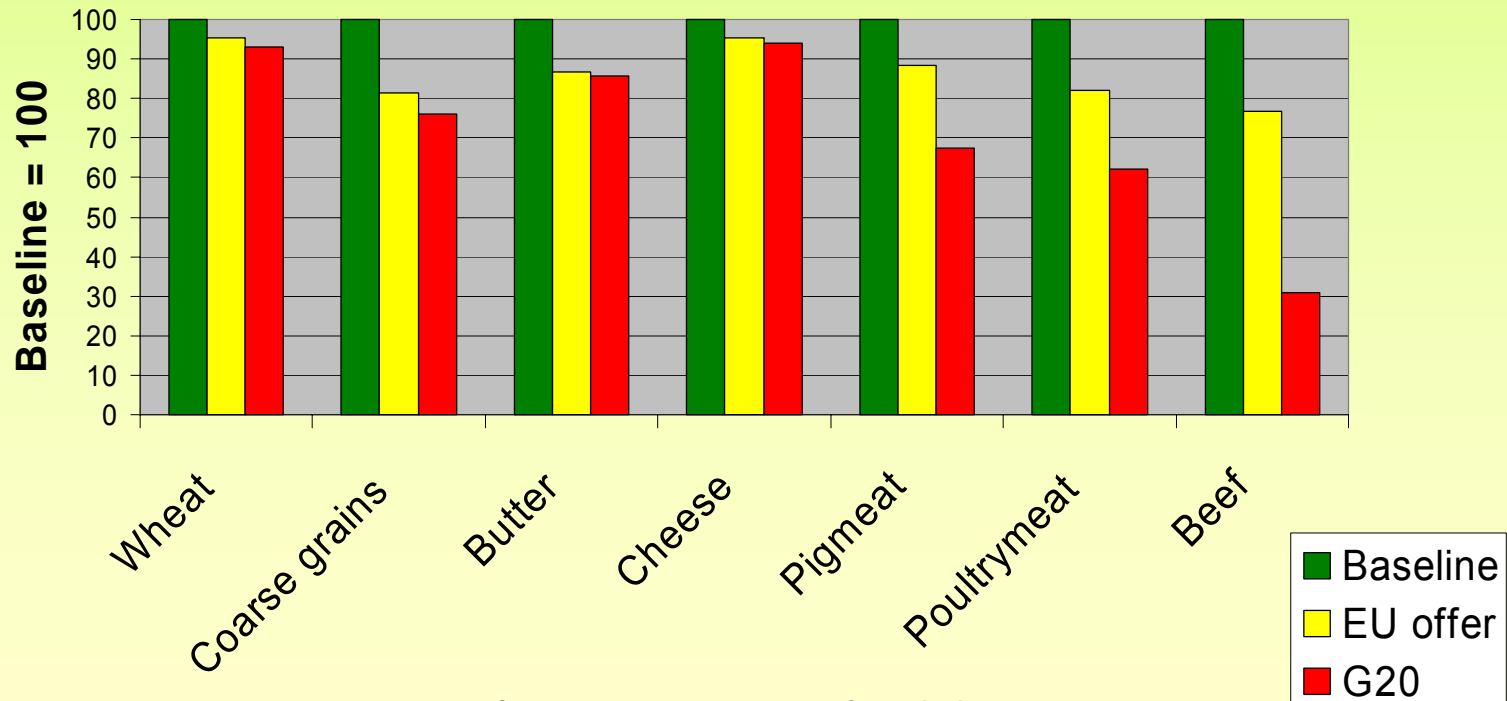
- domestic support – EU offer: to cut by 70%
- export subsidies – EU offer: total elimination by end 2013
- tariffs – EU offer: an average cut of 39%

on condition that others (USA,....) made similar moves

Selected beef tariff lines = sensitive products ?

## Potential impact of a WTO agreement

### EU value of agricultural production



Source: DG AGRI, European Commission



- The pressure of diseases is likely to continue and their consequences on meat supply will remain a risk
- Impact of bioenergy boom on feed availability and price
- Communication and valorisation of the EU high-quality product
- The behaviour of retailers (supermarkets) – supply sources, differentiation, promotion
- Behaviour of consumers
- The dairy sector is under restructuring, its future remains uncertain depending on policy developments – opportunity for suckler cows?





- 1968 – CMO for Milk and dairy products
- 1984 – dairy quotas introduced:
  - Community limit on budget expenditure via production limits
  - National protection of production, structure and income

## Implementation

- Community (framework rules, levy system)
- National (quota trade/transfer, priority groups, etc.)
  - Large degree of subsidiarity and differences in production conditions between MS



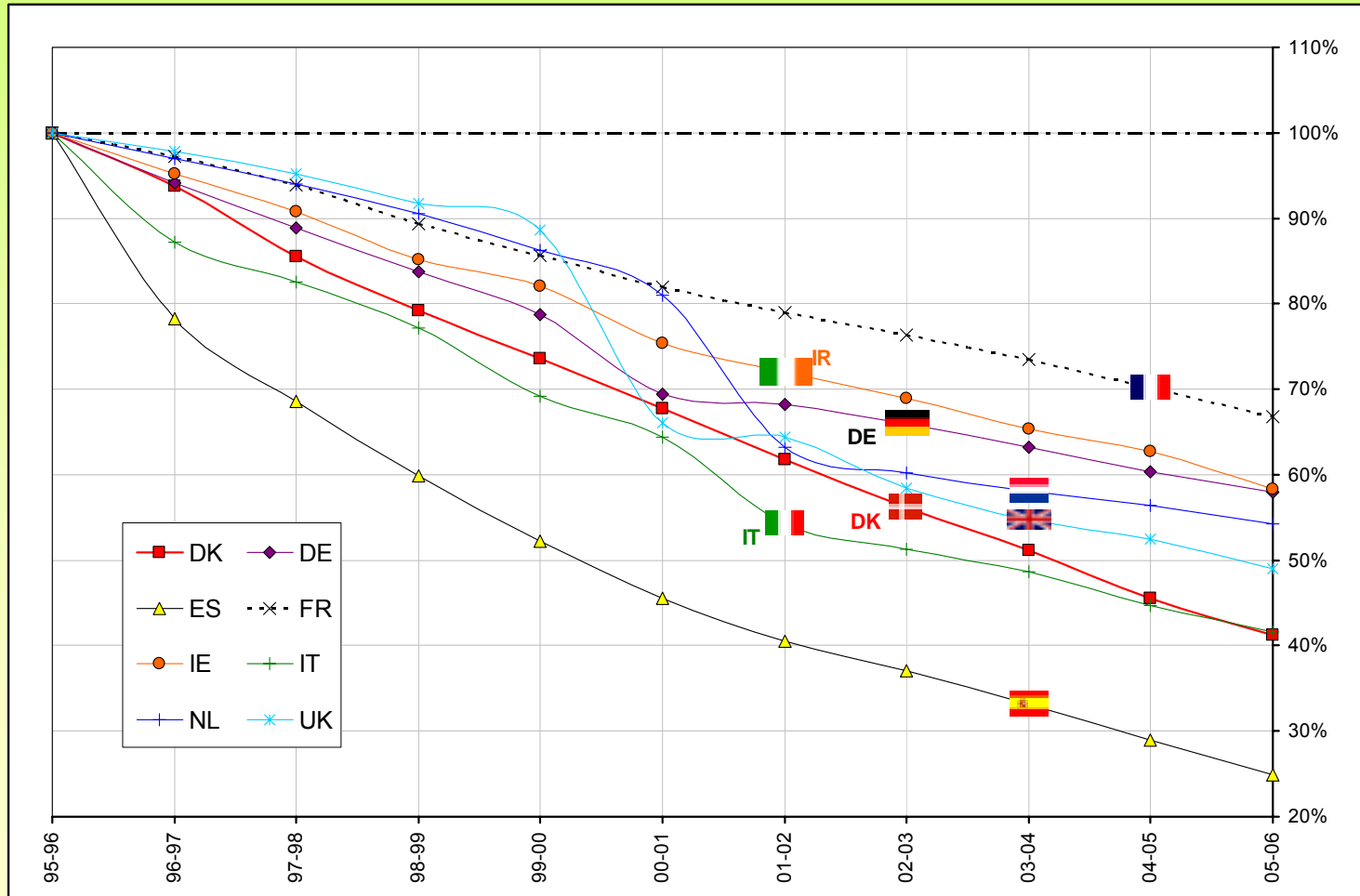
- Efficient control of the (over)production
- Reduction in community stocks of SMP and butter
- Relative balance on the market (supply/demand)
- Support of dairy farmers' revenue

BUT

- NO Limitation of restructuring
  - 72% since 1984 ► average farm size increases
  - 40% dairy cows in EU-9
- Since 2001 ► the milk price is going down – less stable revenue
- **a wide diversity in national implementation of the regime leads to some distortions**
  - **the rules concerning the quota management change over the time – system already flexible to some extent**
  - **burdensome administration in some MS**



## OUTCOME RESTRUCTURING Index of NUMBER of PRODUCERS (1995/96 = 1)





## Restructuring in Denmark

	1965	1975	1985	1995	2005	2010 (prévisions)	2015 (prévisions)
Nb exploit.	135.700	63.352	30.775	14.400	5.938	3.950	2.500
Nb vaches	1.349.200	1.094.248	896.358	702.000	561.000	525.000	
Vaches/exploit.	10	17	28	48	95	133	193
Rendement moyen/vache	3.800	4.300	5.600	6.800	7.154	8.650	
Quota moyen (kg)			161.000	310.000	750.000	1.150.000	1.810.000



## 2003 reform and dairy sector

- Objectives in terms of market management
  - Production of dairy products to be market driven rather than subsidy driven.
  - Increased competitiveness would stimulate such a trend
- Tools
  - Gradual reduction of public market support (intervention, disposal aids for butter and SMP and export refunds)
  - Compensation for milk producers (gradually increased totally decoupled no later than 2007)



## 2003 reform and dairy sector

- Measures taken so far
  - Intervention price down 21% for butter and 15% for SMP
  - Butter intervention at guaranteed prices limited to 40.000 tonnes
  - Reduction of disposal aid for butter from 79€/100 kg in 2003/04 to 12 €in 2006/07
  - Disposal aid for SMP in animal feed and disposal aid for casein production brought to 0 in 2006



## 2003 reform and dairy sector

- Reduction of refunds from 2003/04 to 2007
  - From 178 €100 kg to 86 for butter
  - 0 for SMP and WMP
  - From 105 €100 kg to 34.8 for Cheese
- Dairy premium of 3,55 cents/kg. Decoupled in 11 Member states (of EU-15)
- Modulation of 5% in 2007
- Increase of quotas in 11 member states by 0,5% in 2006
- Reduction of super levy from 35,63€100kg In 2003/04 to 28,54 €100kg in 2006/07



## Remaining measures

- Reduction of guaranteed butter intervention quantities to 30.000 tonnes
- Intervention price for butter down 4% on 1-7-07  
(246.39 €/100kg)
- Increase of dairy quota by 0,5% in 2007/08 and by 0,5% in 2008/09 in 11 Member states
- Decoupling of dairy premium in remaining 4 Member states of EU-15 (NL, PT, GR, AT)
- Reduction of super levy to 27,83 €/100kg





## 2007 Commission Dairy Analysis

- Evaluation of the dairy reform
  - More competitive
  - More market oriented
- Simplification
- Dairy outlook report 2007

Part of the 2003-reform agreement

“...no additional general quota increase in 2007 and 2008 is decided now. The Commission will present a market outlook report once the dairy reform is fully implemented on the basis of which a decision will be taken.”

- Dairy quotas
- Market support

## 2007 Commission Dairy Analysis

- Support prices no longer leading the market

euro/tonne	market price (March 2007)	intervention price	difference
milk	279	218	28%
Butter	2565	2336	10%
SMP	2540	1747	45%
WMP	2580	2144	20%
Cheese	2642	2557	3%

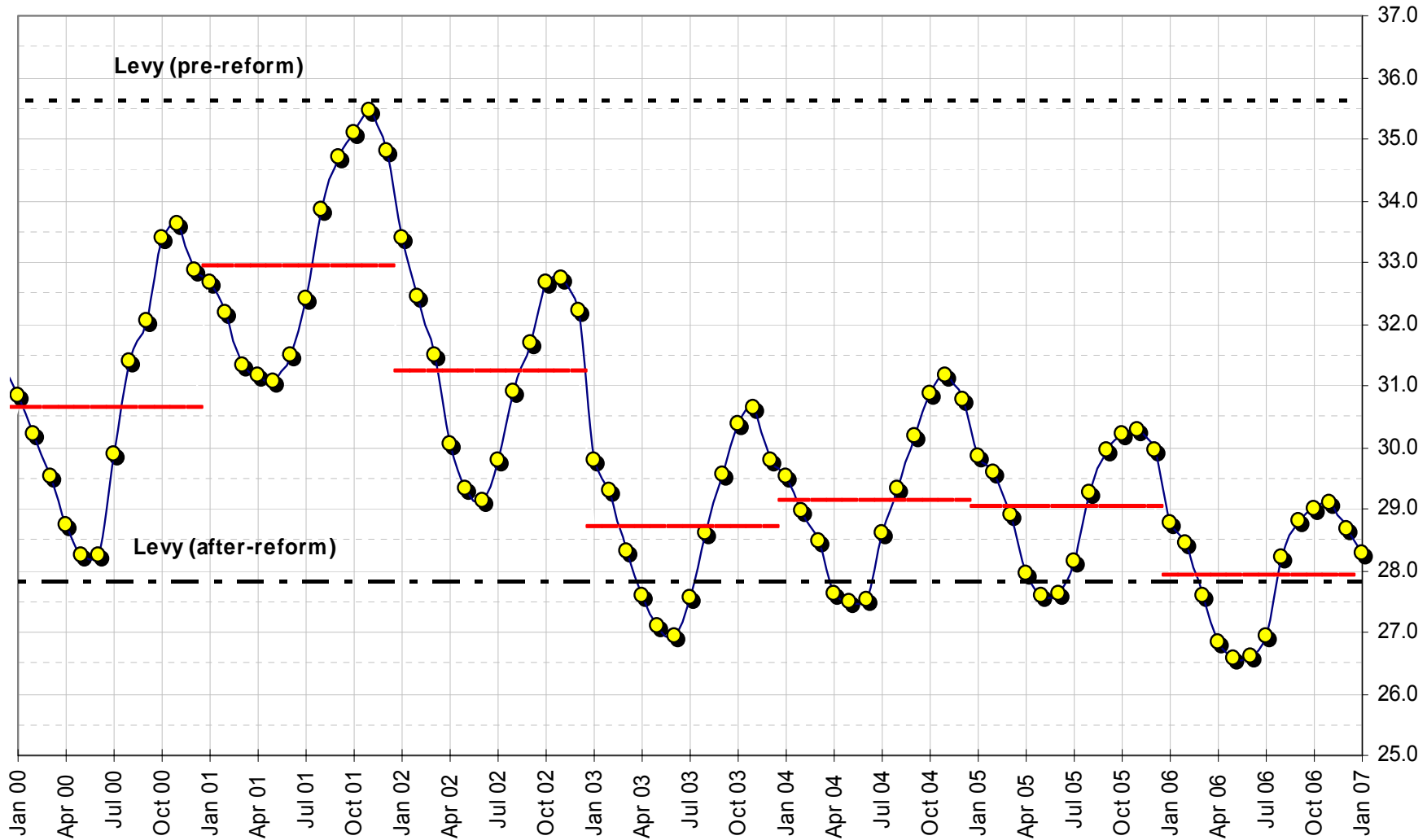
- Disappearing intervention stocks lead to better functioning of the market

### Overall conclusion:

- the sector has responded well to the challenges of the reform.
- a raw milk price substantially above the virtual support level.

**Community weighted average milk price (Real fat content)  
in EURO/100kg paid to the producer (EU-25 since 2003)**

Date : 27 Mars 2007



Source: REG. (EC) 562/2005 art. 6  
Monthly price

—●— Monthly price  
- - - Levy (pre-reform)  
— — — Levy (after reform)  
— — — Annual Avg



## Market support measures

- Further adjustments needed
  - Are they relevant/justified in a sector where the stakeholders are increasingly expected to take on own responsibility with regard to production.
  - Are they relevant/justified in a situation where the limit on production of milk may be gradually disappearing
    - Should intervention continue and, if so, in which form
    - Should private storage aid continue and, if so, in which form
    - Should export refunds continue and, if so, in which form
    - Should disposal aid continue and, if so, in which form



## WHY THE CURRENT DEBATE ?

- the last CAP reform gave a clear framework between 2004 – 2015.
- the Commission has indicated that the quota regime is unlikely to remain in its current form after 2015
- the Commission is expected to come forward with further views in 2008-2009 ('Health Check' + EU budget review)
- Trade liberalisation – export refunds, tariff barriers
- budget debate in 2009 - Total budget for dairy sector € 5.7 billion in 2007 compared to € 5.2 billion in 2013, decreasing share of direct market measures



# Future – major considerations



## Quota and the dairy market

- liberalisation of the EU dairy market as a consequence of trade agreements
- greater market access will put pressure on internal prices – the value of milk quotas in their current form?
- any alternatives to balance the dairy market in a more liberal trading environment ?
- does the current level of milk quota meet the needs of the internal EU market?
- Many producers consider they have non-used dairy production capacities
  - They could increase the milk production by 10% without additional investment

What would be the reaction of processing industry?



**La zone compétitive...**

**mais il faut activer et entretenir  
la force de compétitivité**



**Regional shift of the production into the most competitive areas according to  
Danish Dairy Board**



- **Similarity to the sugar sector?**



## Restructuring and costs

- In case of price and support reduction, much greater restructuring at farm level needed to adjust costs and increase farmer competitiveness.
- Milk quota represents a positive asset value in those Member States that permit market/ exchange transfers
- Therefore, the costs of restructuring could be considerable for dairy farmers.
- However, some dairy farmers would lose an asset value gained by their buying.
- Should they be compensated for this? How?

### QUOTA VALUE IN THE EU Member states

April 2007: ranging between 0,02 to 1,0€/kg (UK x BE fl)

Downward trend – sign of incertitude regarding future policy developments?





## Milk Quota & Milk Price

- The most important issue for dairy farmers – the price should be remunerative because cost reduction possibilities are limited (feed, labour, energy, environmental constraints, land)
- If quotas go and support is reduced, what would be the price?

measure the impact of quota abolition on price

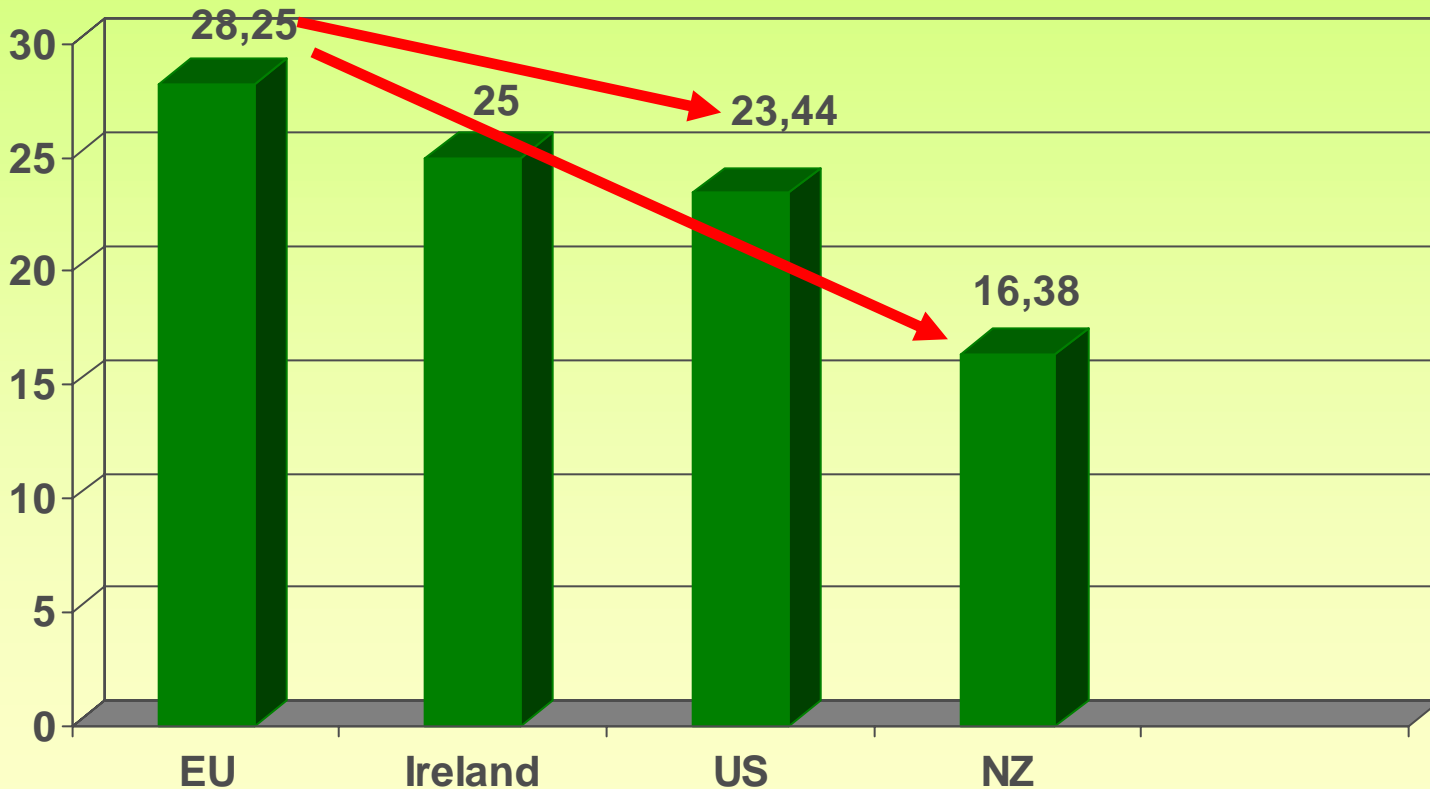
Estimates of COPA-COGECA dairy experts :

price fall = 5 - 15% depending on the country (30-40% extreme for Finland and Austria)

Would such a price be comparable to 3<sup>rd</sup> countries?



## What price without quotas and premiums?



Source: IFA Ireland,  
based on LTO Feb 07 12 mth roll avg price



# Future – major considerations



## Political considerations

### 1.2. Council level (Member States)

- The balance of opinion on milk quotas influenced by enlargements 2004 and 2007?
- probable opposition to the continuation of the quota regime beyond 2015 (DE, UK, NL, DK, SE, CZ, SK, PL, EE – blocking minority)
- But still several Member States defend the quota system as it is (AT, FI, SI, CY, PT, PL?)
- Qualified majority needed if proposal from the Commission

### 1.2. EU Parliament – consulted only



# Future – major considerations



## Alternatives to the current regime and transitional arrangements

- “Soft landing”, i.e. in a transitional period increased flexibility and increasing disappearance of restrictions
  - Increase of quota
  - Lower gradually the super levy
  - Combination, frontloading, back loading..
  - Other : **cross-border trade; reallocation of unused quota between Member States seeking additional quantities**
  - Commission will seek budgetary neutral or positive transition
- Progressive de-capitalisation of quotas

### Alternatives

- a dual quota system (so-called ‘C’ quota system) – export/import e.g. Canada
- Contractual/ interprofessional management of supply/ demand : WTO compatible, EU framework



## Abolition of quotas : no management supply

- Burdensome administration
- Restrictive production with no or little room for expansion to meet new market opportunities
- Less and less relevant for the farmer's revenue
- Markets (internal/external) increasingly taken by 3rd country suppliers
- Quota system expires in 2015
  - No buy out of quotas
  - The current level of quotas do not meet current and future needs
  - Rapid decision needed – phasing-out of the system



# The conservatives / defenders



Wish to retain some sort of milk supply management,  
Either by volume or by price

## Reasons?

- rural areas and LFA would continue to be involved in the business
- market balance and planning of the production
- internal milk price stability - guarantee for those who invested into quotas
- no risk of overproduction = no risk of budgetary expenditure
- fear that the dairy production will move out of the national territory or LFAs
- social-economic role, environmental impacts
- World: supply management everywhere with some exceptions

## Conclusions

### Priority for dairy farmers :

to have some certainty and advance notice (clarity) about the kind of framework in which it will operate after the Health check and post-2015.

- Stability of the income will be the main issue
- Internal market indicators and WTO outcome will be the leading factors to take into account

**Future of EU quota regime – issue to be followed by breeders like you!**



**Thank you for your attention**

