

WORLD DAIRY SUMMIT

Directions in Dairy Policy - an Overview -

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Dairy Policies Worldwide

- Market intervention and farm income policies
- Policies to improve production and marketing structures
- Consumption policies
- Policies regarding international trade



Prevailing Trends

- Withdrawal of governments from direct interventions and product related subsidies
- Trade liberalization
- Promotion of dairy consumption in many countries
- Improving production, processing hygiene and food safety



European Union: A Policy in Transition

Reform of the EU-Market
Regime:

First decisions in 1999 in
Berlin (Agenda 2000)

- Mid-term review decisions,
Luxembourg, June 2003



Elements of the EU Dairy Reform

- Elimination of the target price
- Reduction of intervention prices
- Phasing out of subsidies
- Introduction of direct payments
- Quotas until 2014/15



Intervention Details

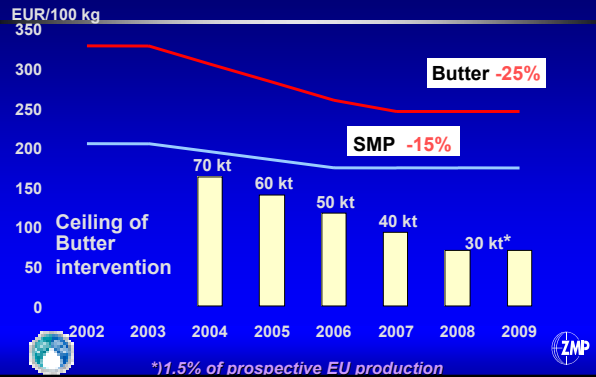
- Butter intervention price down in 4 steps by a total of 25 %
- Ceiling for butter intervention stepped down to finally 30.000 tonnes
- SMP intervention down by 15 %



Support of the Ex-Farm Milk Price by Intervention and Average EU Price of Milk @ 3.7% Fat, EUR/100kg



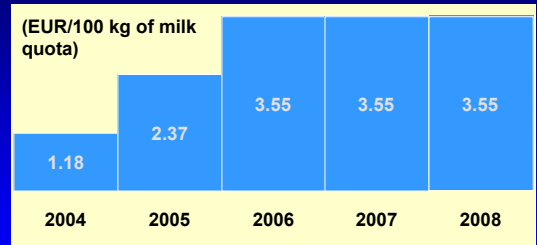
Intervention Prices 2002 - 2009



Direct Payments

- Initially to compensate for farm milk price reductions
- After decoupling only limited to the area, or the farm, regardless of any (milk) production, and in most countries also available to non dairy related areas

Direct Payments for Dairy Farmers



Decoupling Policy: Payments will be decoupled from production

Terminology of Direct Payments

Decoupling:

- Once the annual payment is fixed it will be granted regardless of the size of the individual milk production (provided „cross compliance“ conditions are respected)

Terminology of Direct Payments

Cross Compliance:

- Taking care of environmental issues
- Animal health and animal well being

Terminology of Direct Payments

Modulation:

- Dedication of some shares of the money which was intended initially for direct income support for the development of the „Rural Area“ (Second pillar of the CAP: infrastructure, improving touristic attractiveness etc...)



Terminology of Direct Payments

Payment schemes:

- Single farm payment (SFP)
- Single area payment scheme (SAPS) possible until 2008
- Single payment scheme (SPS)



Decoupling of Direct EU Payments

- Voluntary from 2005 on,
- Compulsary from 2007

Different models, ending up in Single Farm Payment scheme (SFP)

- Historical (linked to the farm according to the Milk Quota, eventually slaughter premiums)
- Hybrid (Partly linked to the quota and to the area)
 - Static hybrid: Fixed
 - Dynamic hybrid: Gradually changing from historical to full flat rate



Decoupling of Direct EU Payments

Historical	Static hybrid	Dynamic hybrid
Austria, Belg., France, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Scotland, Wales	Denmark, Luxemb., Sweden, Northern Ireland,	Finland, England, Germany
		<i>Regional differentiation in Germany and Finland</i>

Different schedules for the final integration into the single farm payment (SFP)



Short Term Impacts

- High demand for milk quotas before the deadline for the final fixing of the individual payment
- Consequently high quota prices



Medium Term Market Impacts

- Higher volatility of prices
- Problems are expected in particular in the market of butter(fat)
- Attractiveness of the EU market for imports will become more volatile
- Competitiveness of the EU market in exports will also be subject to strong fluctuations



Long Term Impacts

Open questions:

- What will be the response of the half million of dairy farmers in the EU15 (and around another half million in the new Member Countries), everyone in a very individual economic and social situation ?
- How much, where and by whom will milk be produced in the future?



New Member States

- They are offered the simplified system, (SAPS) from the beginning, taking into account administrative difficulties and the late introduction of quotas in Poland and Slovenia
- all except Malta and Slovenia have accepted SAPS



Dairy Policy Impacts of EU - Enlargement

- Adoption of the EU market regime
- - Introduction of milk quotas
- - - Partly realized
- - Introduction of intervention measure
- - - no purchase of butter and smp so far
- - - modest applications for subsidies
- - - quotas in most countries, but not yet allocated in Poland and Slovenia



Policies in Europe outside EU

Switzerland:

- Milk quotas in the 2003/04 marketing year reduced by 2,5 % to stabilize the prices.
- Responsibility for quotas since May 2004 in hands of industry bodies
- Quotas scheduled until May 2009



Policies in Europe outside EU

Norway:

- Target price of milk has been increased by 2 %.
- Ceiling of the quota for a single farm now increased from 250.000 to 375.000 litres per annum.



USA: Farm Bill extended until 2007

- MILC: Milk Income loss Programme compensates farmers for income losses when prices fall below a certain level
- Temporary measures for draught affected areas



USA: Market Regulation

- Market still split in manufacturing milk and „Federal Market Orders“, and special regulation for California
- Support prices of SMP are close to world market levels
- Special disposal of CCC stocks of SMP mainly in the domestic market



Two Categories of Direct Payments

- Constant payments for expected price reductions from support cuts (EU,...)
- The typical deficiency payment: Temporary compensation for price reductions from unfavorable market situations (USA)



Russia/Ukraine

- **Russian policy not consistent:** Efforts to curb imports by veterinary measures, but reduced domestic production of 2004 is a reason for growing imports
- **Ukraine:** policy aiming at supporting large scale establishments with higher productivity and improved hygiene conditions



Canada: Quotas and Support Prices

- Market Sharing Quotas (MSQ) for industrial milk has been stepped up to 48,7 million kg of butterfat.
- Support prices of butter and smp increased by 3,5 % on February 1, 2004
- Surplus disposal in the domestic market
- Assistance for farmers suffering from the BSE problems by Federal and Provincial authorities.



India: Health and Safety in Focus

- „Milk and Milk products order of 1992“, : Control of Dairy Processors
- Milk Powders under Control of Bureau of Indian Standards
- „Prevention of Food Alteration Act“ : quality control of imports
- - „Export of Milk Product Rules“: quality control of exports



China: Improving of Production, Processing and Consumption

- Support to co-operative keeping of dairy cows
- Support to other farms of co-operation in dairy farming
- Control of milk processing
- Strong campaigns to improve nutrition of consumers by official promotion of dairy products consumption



Japan: Improving of Market Conditions and Production Structures

- Establishing of a pricing system which reflects the market conditions and secures dairy farming
- to improve the farming structure to achieve higher effectiveness
- Restructuring of the dairy industry

Envisaged for 2005: Basic policy to plan the modernization of dairy and beef farming

Later: Direct payments?

Other objectives: Environmental improvement of the livestock industries



Mexico: Strong Dependence on Imports

- Policy aiming at more preference for domestic production
- Programmes to improve qualities in the „formal“ sector



Australia

- Analysis: Price determination in the food industry
- Change of assortment towards higher added value products (West Australia)
- Free trade negotiations with the U.S.



New Zealand

- Incorporation of the dairy sector into the Animal Products Act (replacing older legislation)
- Free trade negotiations with China



Brazil, Peru: Social food programmes

- Higher demand is resulting from programmes of improving overall nutrition
- Similar activities elsewhere in Latin America



Trade Related Issues

- Multilateral
- Bilateral
- Unilateral
- Efforts to achieve progress in WTO II
- Reduction of exports subsidies



Unilateral Measures

Increased market access:

- Iran resuming feta imports
- Duty reductions by Algeria for whey powder
- ✓ But also import restricting measures (Colombia, Egypt, Tanzania)



Bilateral Agreements

- Free Trade Agreements (FTA): Australia – Thailand from 2005
- FTA Australia – US in preparation (and many others with minor impacts for the dairy sector)
- FTA negotiations and co-operation NZ - China
- NZ - Russia: Maximum levels for dairy tariffs
- EU – Switzerland: Schedule for unrestricted trade 2007
- EU – Egypt: Reduced tariffs for EU cheese exports



Sources

- IDF National Committees
- FAO, contribution of Michael Griffin to the World Dairy Situation 2004
- AGRA Informa Ltd., *CAP Monitor*



Thank you for your
attention

