

The milk package and the prospects for the dairy sector

Answers to five questions in the light of the French experience

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Q1 (1). What are likely after-quotas scenarios ?

→ A continuation of the farm restructuring process

- 68 000 dairy farms in France in 2014 (-4% to -5% per year) / towards 40 000 farms in 2025 ?
- The key role of agricultural societies (79% of French milk in 2014 : 43% from GAEC ; 31% from EARL)
- The development of large structures (16% of cows are located in farms with more than 100 cows)

→ An accentuation of regional contrasts

- A very strong decrease of milk production in areas with low milk density and mix-farming (cereals)
- A concentration of the milk production in areas with a high milk density : “agglomeration effects”
- A higher increase of the milk production per farm in plain than in mountains areas

→ Nevertheless, there is still a diversity of dairy models

- French dairy farms often have a variety of agricultural products
- The cheese-production chains (quality) contribute to maintain milk production in some mountain areas
- The milk transformation is due to many actors : private groups, cooperatives, small regional enterprises

Q1 (2) Please also give your view on access to credit for milk producers

→ The investments in dairy farms are favored by the economical situation

- The international context for milk demand is considered as positive in a long run
- New opportunities for growth in terms of milk production per farm (with new technologies)
- The interest rates are relatively low, but profitability of dairy farms is not always sufficient

→ Access to finance

- We need to distinguish cash needs (price volatility) and investments at a long run (buildings, lands...)
- The average amount of investment per farm is increasing rapidly (threshold effects / Dairy technology)
- The average ratio “debts/capital” of French dairy farms is still moderate (40%)
- The competition between the major banks help the farmers

→ Changes in the transfer of (farm) capital

- The development of rented land: land capital is rarely purchased by the new generation of farmers
- The agricultural societies (“GAEC”) can promote a smooth transition of capital between generations
- Merging neighboring farms around a shared project or, sometimes, under financial constraints

Q2. What are your favourite tools to prevent crises in the after-quota period? In that context, would you consider an increase in intervention prices?

→ Milk prices will be volatile: the difficult adjustment of supply to demand

- A global supply under the influence of external factors: climate and yield of forage crops
- The annual rate of growth for dairy products demand is positive worldwide, but with variations

→ What about the instruments of the past ?... Just in case of serious crisis

- An increase of the intervention prices is not really a good solution to prepare the future
- Export refunds: an effective tool (Russia bans food imports), but also controversial internationally

→ What kind of tools should be favoured?

- Try (but difficult) to increase prices of dairy products at consumer level.
- Allocate more funds to “crisis reserve”
- Implement differentiated producer prices according to market situation (reference A, B or C)
- Strengthen coordination upstream (producers organizations, associations of POs)
- Promote new insurance systems (see Farm Bill)
- Adapt the taxation system to encourage farmers to save money during the "good years“
- Reduce, by agricultural development, the heterogeneity of production costs among farms

Q3. Which measures would be the most effective in helping producers situated in disadvantaged regions after the end of the quota system?

→ In France, the latitudes left by the CAP regulations have been used

- The national choices (2014) regarding direct payments are clearly favourable to these regions
- Supply management of cheese covered by Protected Designation of Origin (PDO)

→ How to do more?

- Flat-rate model at 100% for the Single Farm Payment per hectare at national level (instead of 70%)
- Grant an specific aid to the first 52 hectares, but only for surfaces in grassland (no WTO compatible)
- Allocate more funds to the modernization of livestock buildings (more expensive in mountains)
- Help to promote the image of the dairy products from the mountain on the domestic market
- Promote the export of quality products (PDO cheese) on foreign markets
- Increase the funds granted to young farmers in these regions
- Encourage the development of suckler cows (farm with milk production and bovine meat)

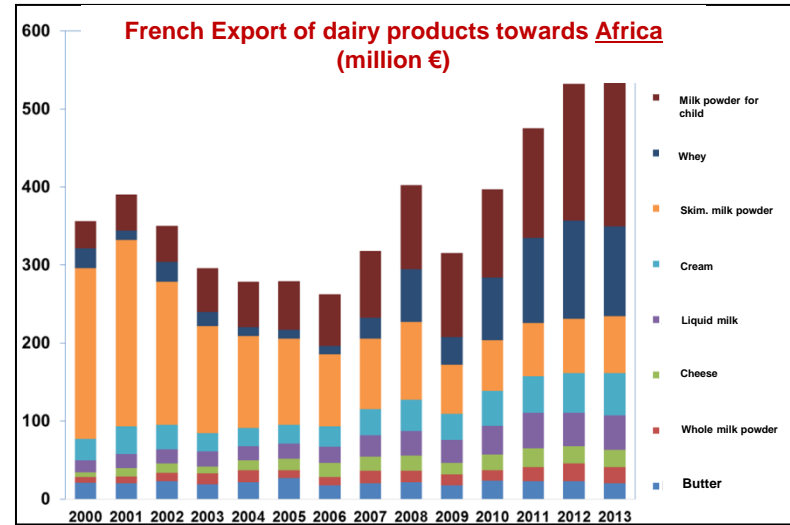
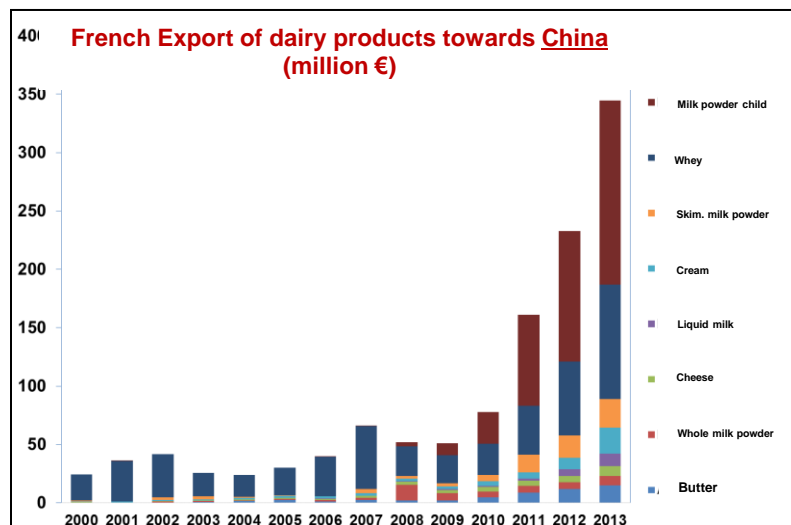
Q4. What are the opportunities and risks concerning exports of dairy products outside of the EU?

→ No additional production without export performance

- What about the long-term growth potential of exports from New Zealand and the USA?

→ A favorable trend for export, in “volume and/or value added”

- Stability of the French trade balance with the countries of the EU-27 (balance = +1.2 billion € in 2013)
- ... But high growth with third countries (balance = + 2.4 billion € in 2013)
- Non-EU customers: China (export: 344 million €) ; Algeria (187) ; USA (170) ; Switzerland (124) ; Russia (107)



Douanes françaises / Traitement INRA LERECO

Q5. Could milk support systems that are currently in place in other countries (e.g. New Zealand, Switzerland, Canada, USA) be used as a model for the EU dairy sector?

→ **New Zealand** (an impressive increase in production and export)

- The budgetary support is limited
- Environmental rules have allowed a high growth of milk production during the last 10 years

→ **Switzerland** (a small producer: 3.5 million tons and few exports)

- The liberalization of the cheese market with the EU in 2007
- The end of the quota in 2009 (after thirty years)
- Implementation of a contractual policy between processors and producers

→ **Canada** (a small producer: 8.7 million tons ; a negative balance: -420 million dollars)

- Adjustment of supply to domestic market needs (expressed in milk fat)
- Financial penalties of milk producers in the event of surpluses
- Adjustment of milk prices based on production costs

Q5. Could milk support systems that are currently in place in other countries (e.g. New Zealand, Switzerland, Canada, USA) be used as a model for the EU dairy sector?

→ The United States (a new *Farm Bill* and a rapid increase of exports)

● The Dairy Product Donation Program (DPDP)

- The Commodity Credit Corporation (CCC) funds purchase dairy products for donation to public and private nonprofit organizations that provide nutrition assistance to low-income populations.
- The products can not be stored for later use.
- This program can be established for a maximum period of 3 months.

● The Dairy Margin Protection Program (DMPP)

- A compensation is awarded if the threshold is exceeded two consecutive months.
- Farmers can choose their margin cover: 67 € to 135 € / 1,000 liters.
- For the lowest level of margin, the producer do not pay (free)
- In addition, the farmer has to pay a premium (depending on the desired guarantee)

A vertical stream of white liquid, likely milk, falls from the top of the frame into a pool of liquid below. The impact creates a series of concentric ripples that spread outwards. The background is dark, making the white liquid stand out.

Thank you !

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For more information...

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