The French Dairy Sector Facing the End of Dairy Quotas

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Outline

1- Market trends and their effect on the French dairy sector

2- The end of dairy quotas

3- Farm restructuring and strategies

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1- Market trends and their effect on the French dairy sector

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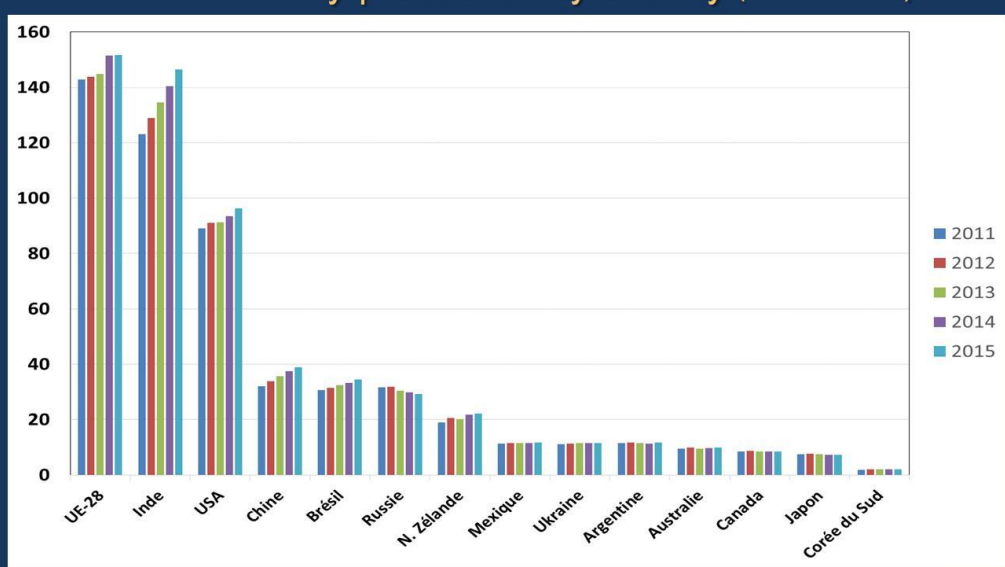
Dairy production by country (millions of tons)



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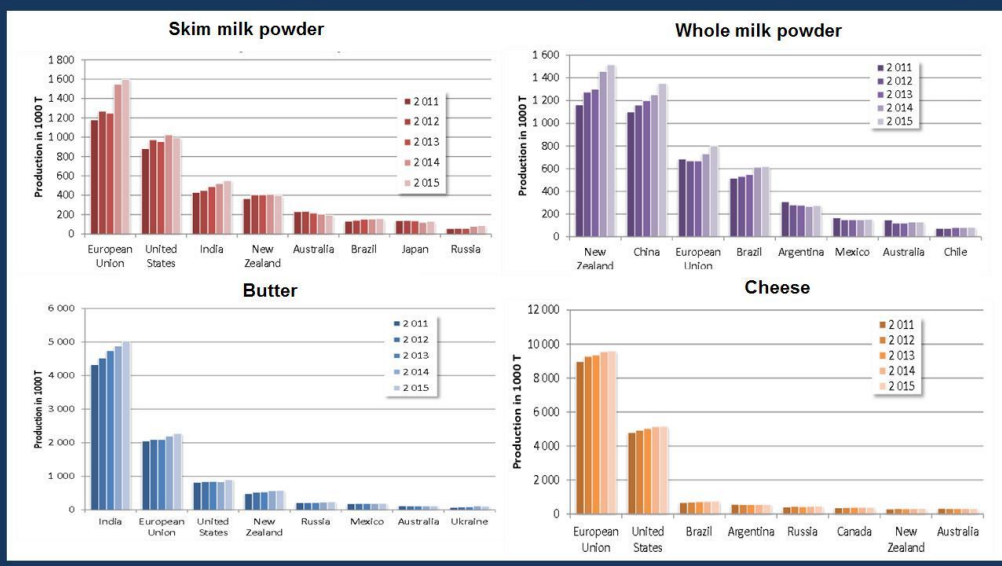
Dairy production in key countries (thousand of tons)



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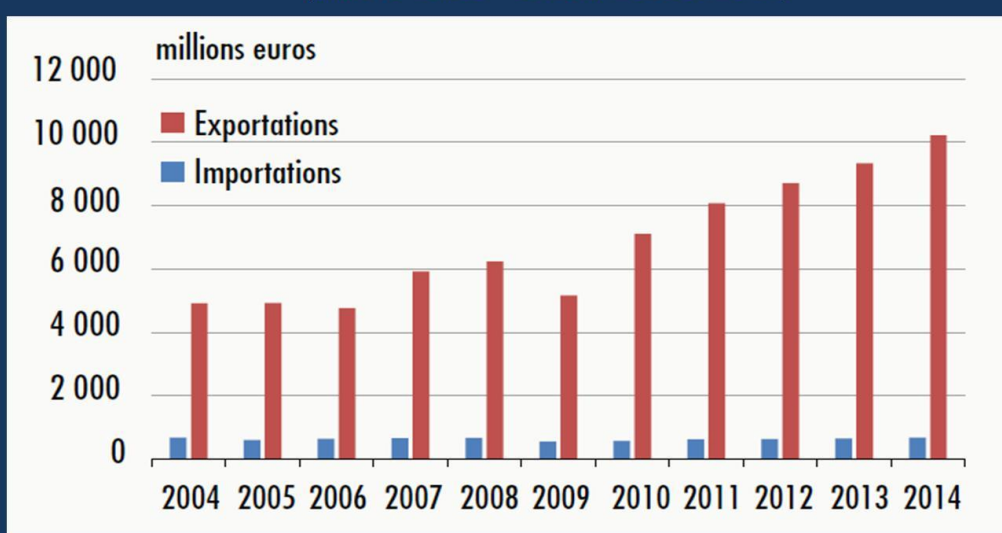
Trade of dairy products in EU-28
(millions Euros - current, 2000 to 2014)



GEB-institut de l'élevage d'après Eurostat

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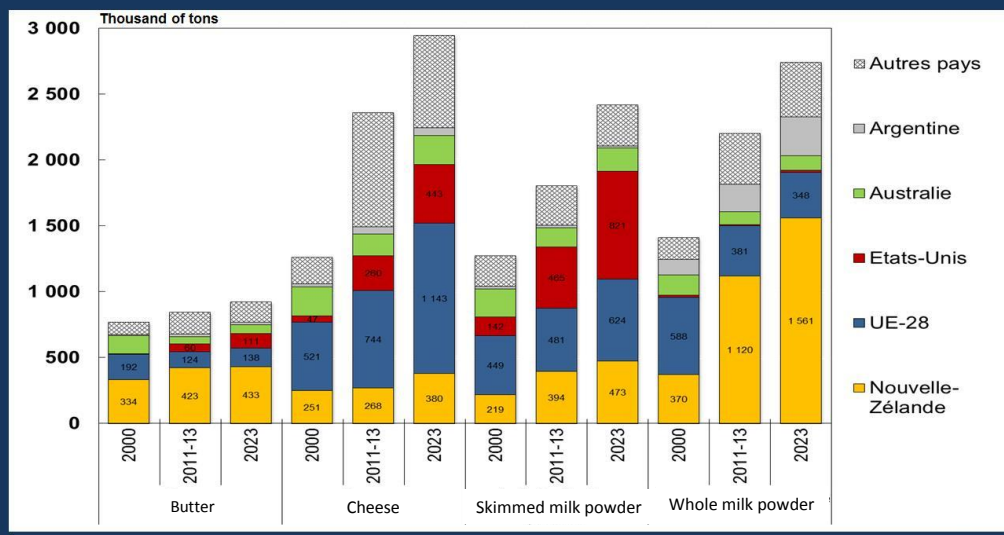
Dairy exporter countries
(thousand of tons, 2000, 2013 and 2023 projections)



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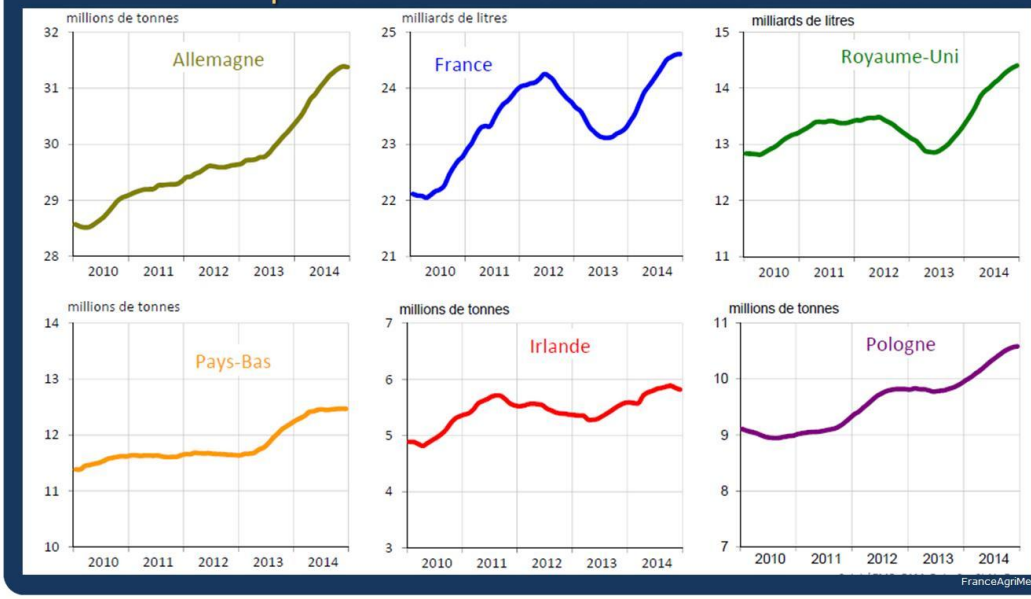
Milk production in France and other EU countries



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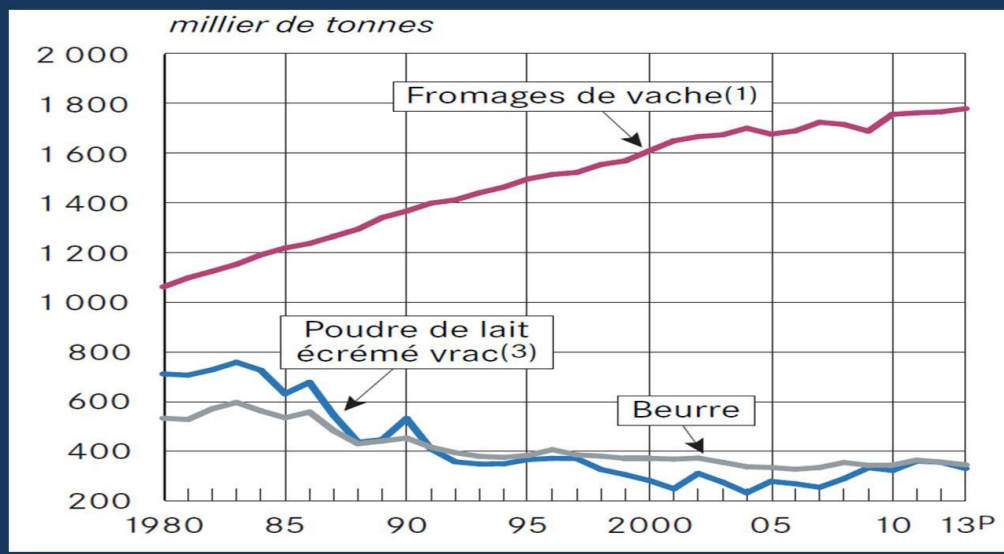
Milk use by industry - France



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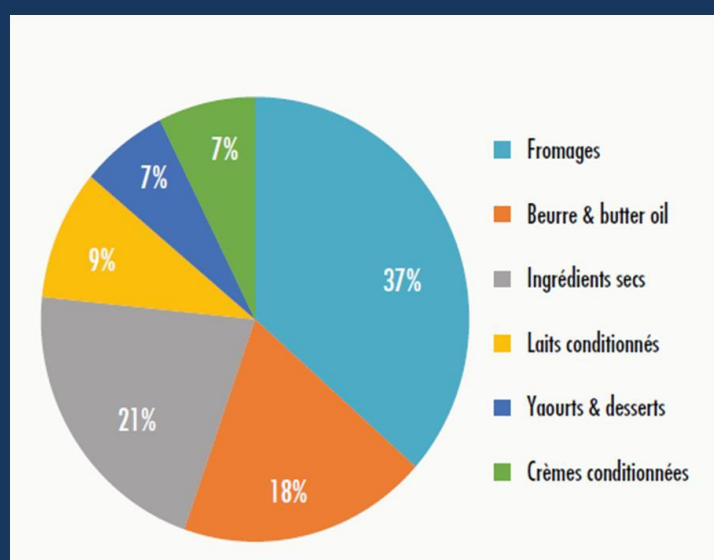
End use of milk - France



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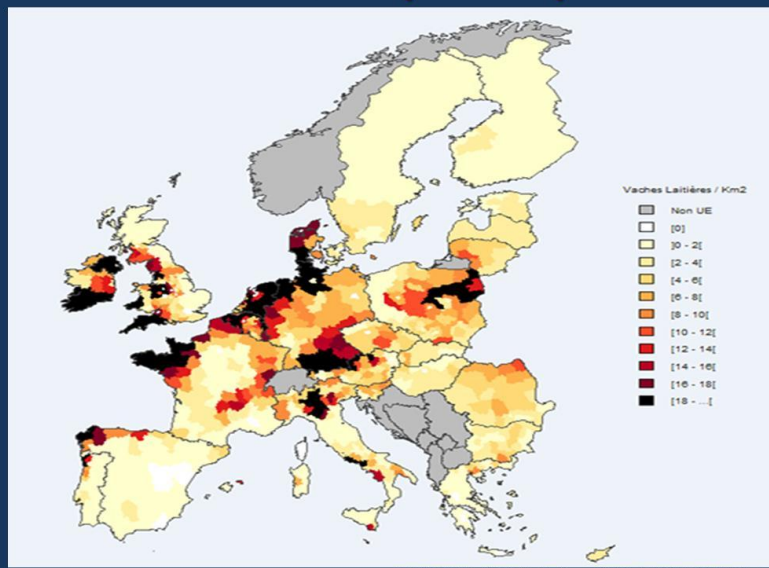
Number of dairy cows by KM²



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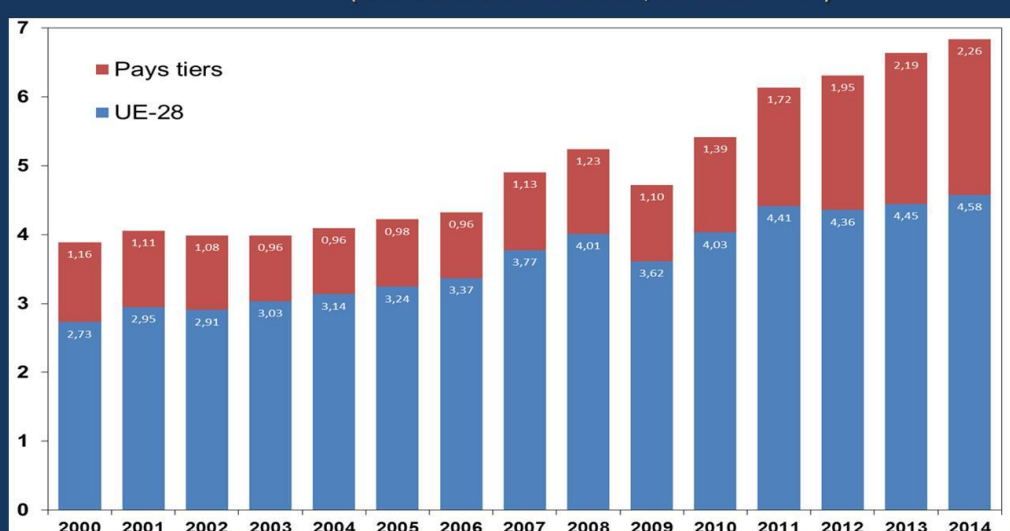
Dairy exports from France
(Billions Euros – current, 2000 to 2014)



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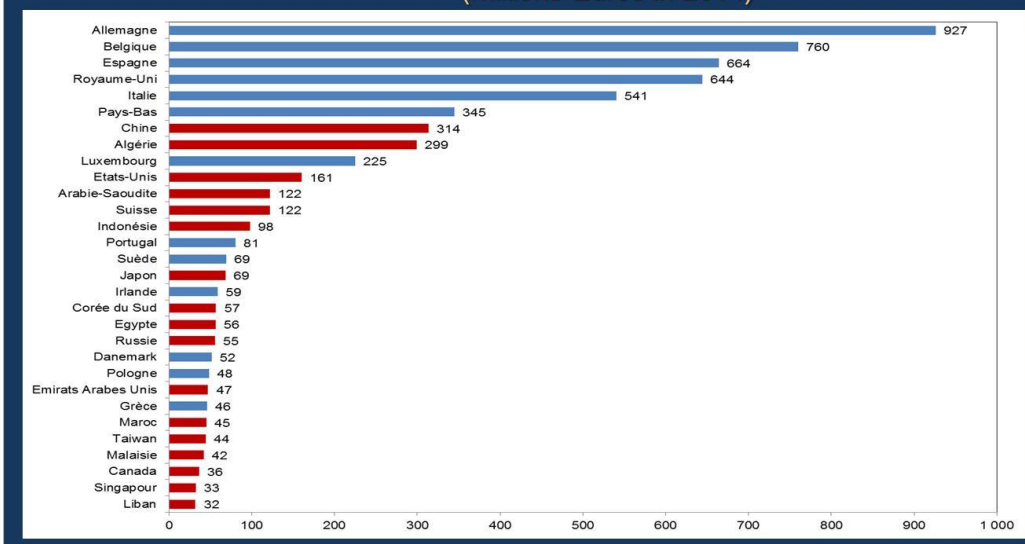
Exports markets of dairy products from France
(millions Euros in 2014)



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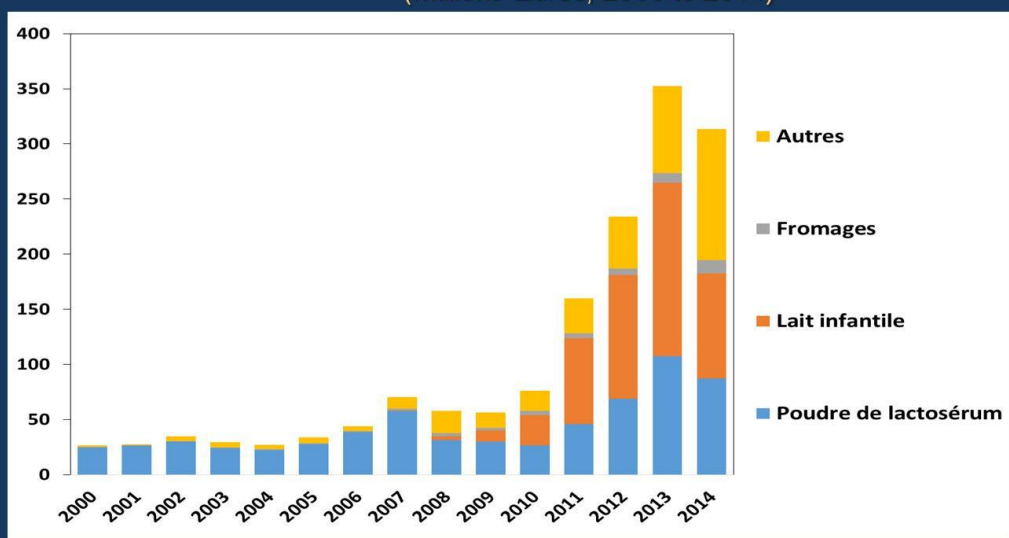
Dairy exports from France to China
(millions Euros, 2000 to 2014)



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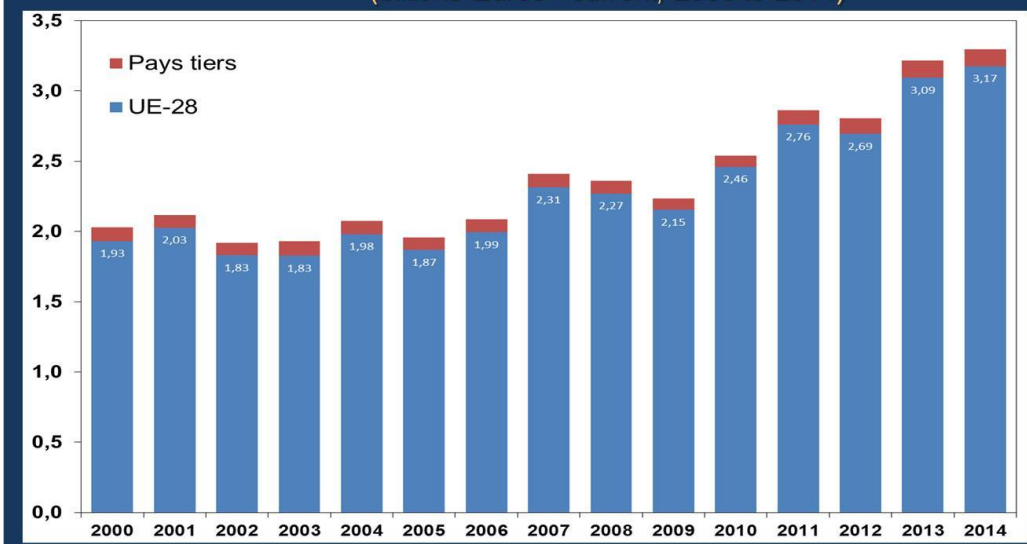
Dairy imports from France
(billions Euros - current, 2000 to 2014)



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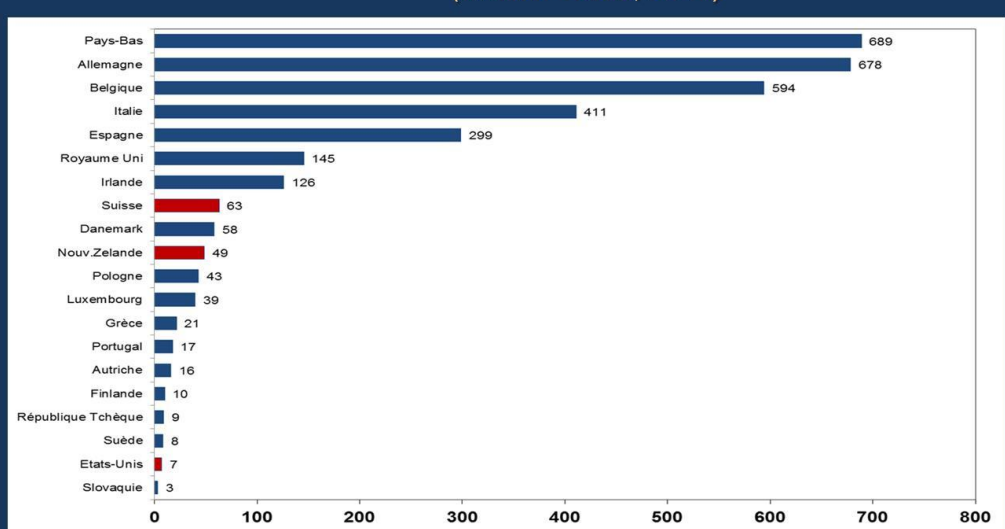
Dairy suppliers to France
(Millions Euros, 2014)



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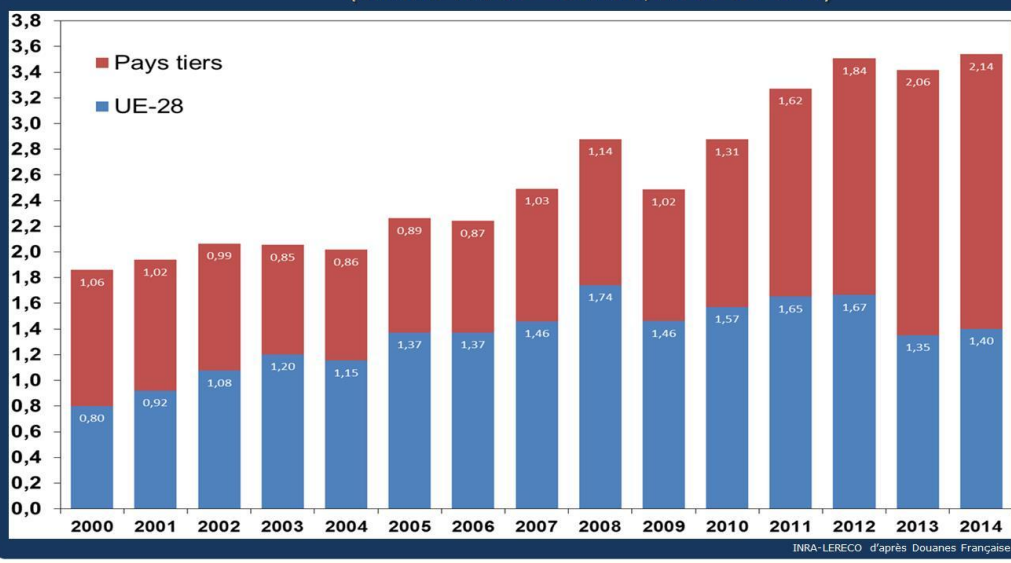
Balance of trade – Dairy products - France

(Billions Euros – current, 2000 to 2014)



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Key Lessons Learned from Current Market Trends

➔ **Increasing intra-community competition** (northern countries)

- Germany is geographically at the centre of Europe
- Development of "competitiveness/energy/environment" strategies
- Standards (social, environmental, etc.) sometimes less stringent than in France

➔ **Real growth is only in foreign markets**

- Export competition is at the centre of the growth
- The strongest growth is in developing countries (especially in Asia)

➔ **How can we ensure/maintain a competitive advantage?**

- Reduce production costs to remain attractive against the competition
- Make imitation difficult (technology, quality, ambiguity, integrate into the culture)
- Use non-transferrable resources (AOC)
- Innovate and reinvest profit margins to ensure differentiation

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2- The end of dairy quotas

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The End of Dairy Quotas

→ Major change in framework, especially in France

- Progressive transfer of supply management to processors
- Contract economy replacing administrative economy
- Development of vertical coordination between deliverers and processors

→ Contracts at the centre of the "Milk Package"

- Producers' right to organize and negotiate contracts
- Recognition of joint trade organizations, but with limited leverage
- Possible management of collective supply for cheeses AOP/PGI
- Maintenance of public market management tools in case of a serious crisis

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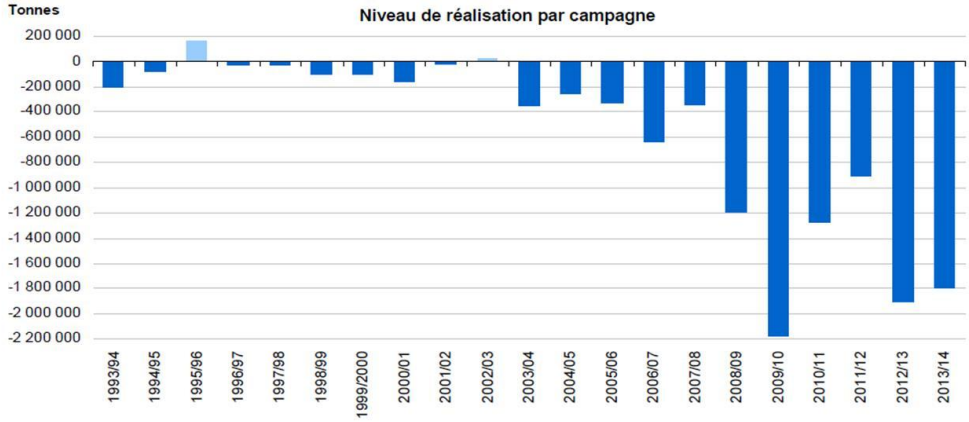
Under utilization of dairy quota in France



Accroissement de la sous-réalisation à partir de la campagne 2008/09, en raison notamment des **augmentations communautaires de quotas** (+ 8,5 % sur 8 campagnes), maintenues malgré une **conjoncture parfois défavorable**.

- 8,7 % en 2009/12, - 7,4 % en 2012/13, - 6,9 % en 2013/14 pour les trois plus importantes sous-réalisation .

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Towards New Relations Between Producers and Manufacturers

➔ Key points for manufacturers

- The geographical location of investments
- Dairy density (transportation costs, but also consumer proximity)
- Production cost and economic performance of the area

➔ Processors will have new levers for action

- Redistribution of volume following production cessation
- Reference flexibility as a function of market opportunities
- More or less restrictive seasonality framework terms

➔ Producers will be more dependent on farms

- Growth opportunities (or the lack thereof) will depend on the company
- The price of milk will depend on criteria more internal to the company
- The most productive producers will be favoured in the short term

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3- Farm restructuring and strategies

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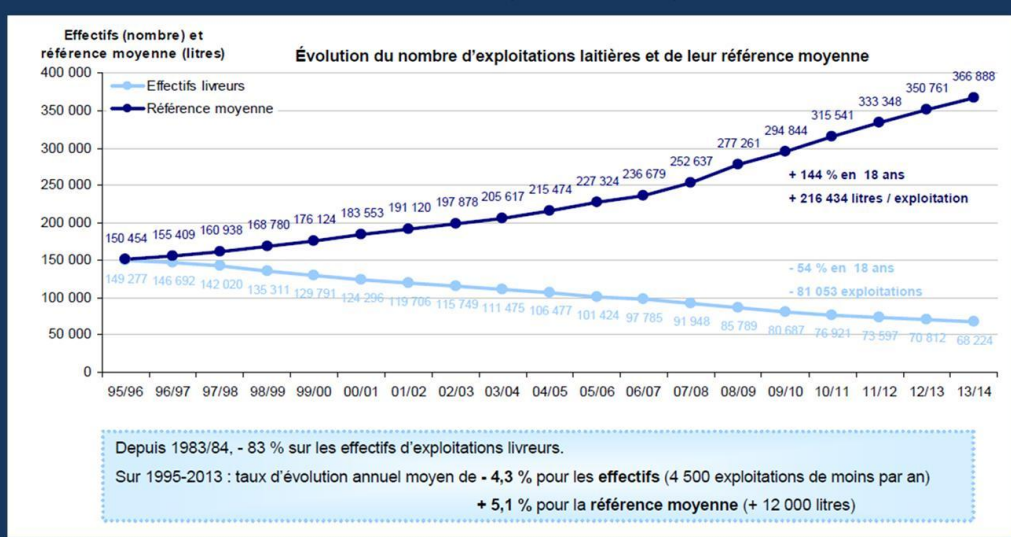
Number and size of dairy farms in France
(1995 à 2014)



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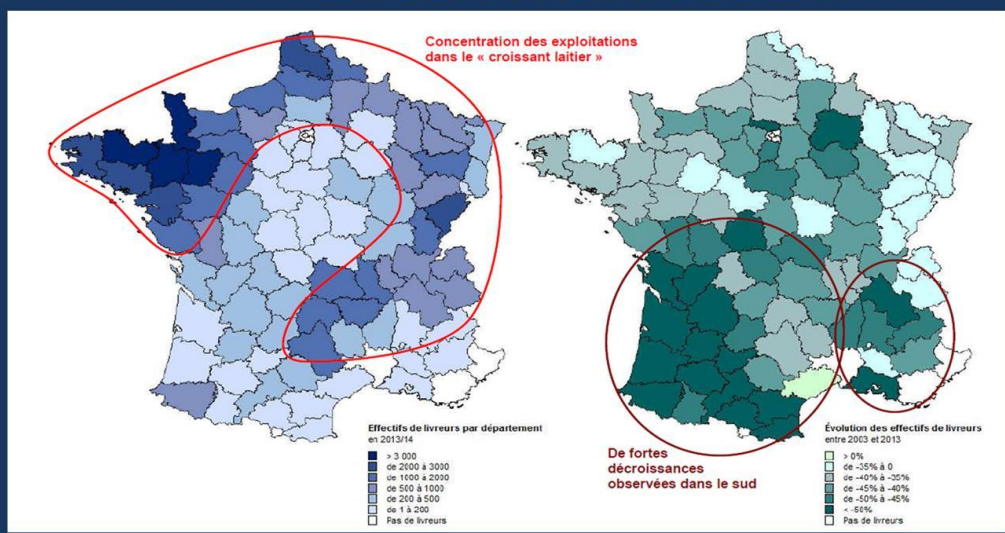
Number of dairy farms in France in 2014 and evolution from 2003 to 2013



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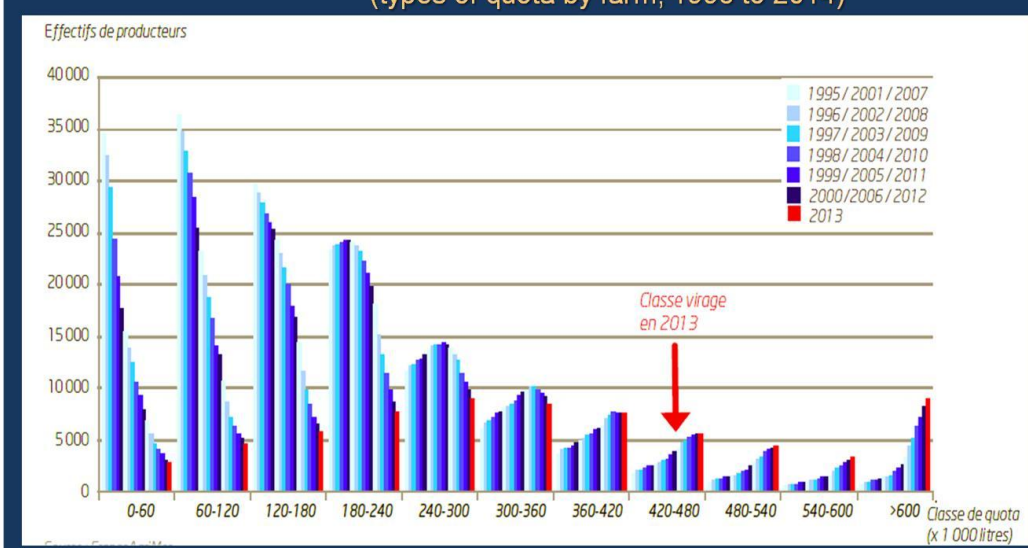
Number of dairy farms in France by quota

(types of quota by farm, 1995 to 2014)



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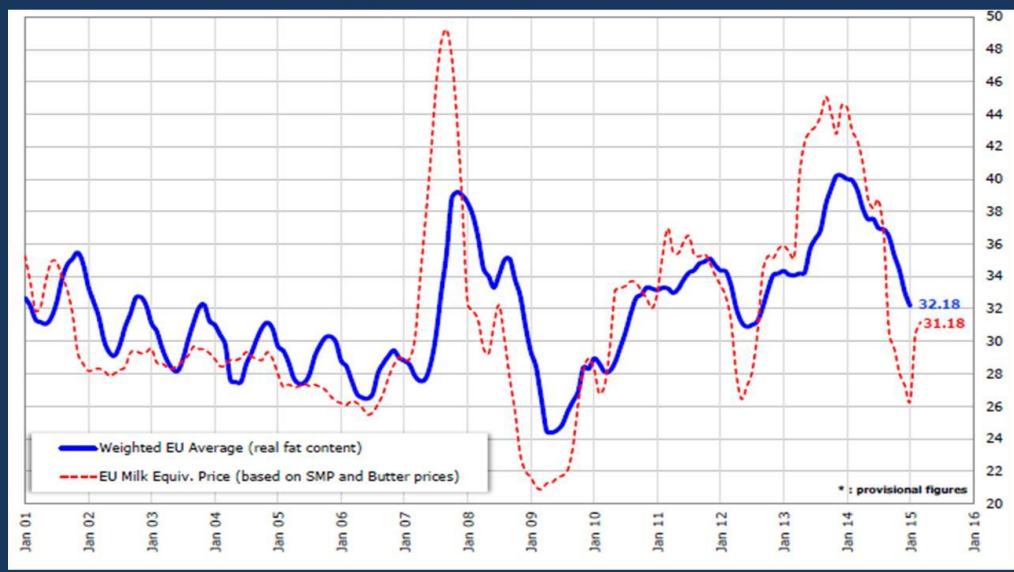
Dairy producer prices in EU (Euros / 100 kg)



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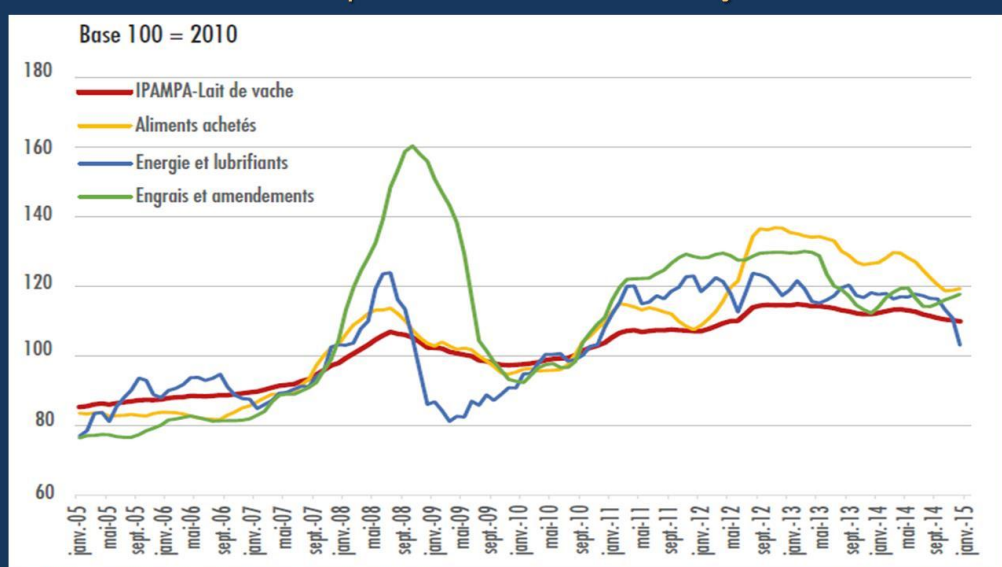
Input costs – French dairy farms



IPAMPA : Indice du prix d'achat des moyens de production agricole

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Direct Assistance to French Dairy Farms

➔ Some perspective

- 39,500 euros per farm
- 20,000 euros per job
- 18% of sales
- Approximately 60-80 euros per tonne of milk (price of milk in 2014: 326 euros/t)

➔ Changes to expect from the future CAP (2014-2020)

- Redirection of direct assistance to production in mountainous areas
- Slight decrease of direct assistance to intensive dairy farming operations
- Assistance will not help competitiveness in tomorrow's markets
- Modest rise in importance of insurance mechanisms

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Dairy Farm Strategies

➔ Three major complementary strategies

- Technical strategy (optimization, rather than maximization of technical performance)
- Entrepreneurial strategy (land acquisition, choice of productions, investments)
- Heritage strategy (farm's transferability and appreciation of accumulated capital)

➔ A strategy adapted to each farm

- Effectiveness of inputs (energy, fertilizer, feed, etc.)
- Diversification of productions and activities *versus* specialization (economies of scope)
- Labour productivity (economy of scale; intensification; work organization models)

➔ Avenues and new directions

- Creation of added value at the centre of investment strategies
- Structure relationships with the downstream, contract, enhance sales (quality)

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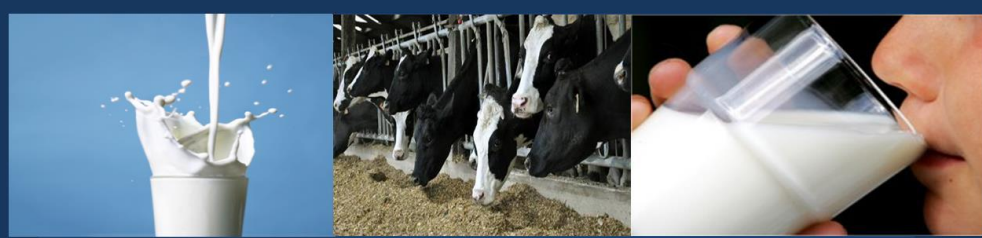
Conclusion
Weaknesses Strengths and Challenges



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The French Dairy Sector: Weaknesses

- ➔ Considerable European competition
  - The development of supply (flexibility) and competitive industrial tools
  - Standards that are sometimes more advantageous: fiscal, social and environmental policies
- ➔ Exports still insufficiently directed to third country markets
  - Product diversity that can at times oppose mass expansion of supply
- ➔ High heterogeneity of performance among farms
  - Necessary control of production costs (dilution of fixed charges)
  - The price of milk is only one variable among others that affect profitability
- ➔ Vulnerabilities to integrate…
  - Environmental standards will weigh on the concentration of supply
  - An age pyramid that entails "seducing" new generations

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The French Dairy Sector: Strengths and Challenges

➔ Competitive strengths

- **Favourable geographic location** (climate, proximity of the ocean and deficit countries)
- **Moderate cost of acquisition of production factors** (land/farm and contracts/non-market services)
- **Reserves of productivity** (at times) **in farms and certain territories**
- **High consumption level and solid demand** (diversity of products)
- **Innovative enterprises with solid technological experience**

➔ Challenges for the dairy industry

- **The crucial role of technical know-how (including sanitary control)**
- **Boosting product innovation to appeal to tomorrow's consumers**
- **Strengthen ties among the various industry stakeholders (contracting)**
- **Favour long-term financing of structural investments**
- **Improve the quality of the debate between Agriculture, Science and Society**

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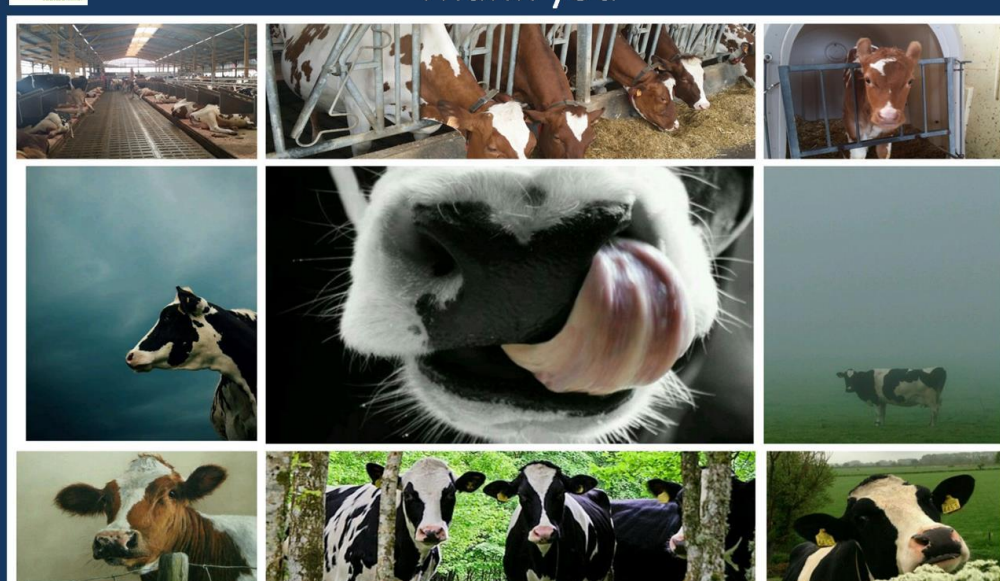

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For more information…

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