

***The European Union on the move:
Reform of the Common Agricultural Policy
Impact on EU Dairy Market***

***Jean-Marc Trarieux
Delegation of the European Commission
to the U.S.***

***31st Annual Southern Dairy Conference
Atlanta, Georgia – February 16, 2005***



The European Union

25 Member States

455 million consumers

11 million farmers



Outline - CAP reform(s)

Common Agricultural Policy = EU Farm Bill

- Policy objectives' reforms***
- Key elements of the CAP reform***
- Budget impact***
- Trade impact***
- WTO implications***



CAP: evolution of objectives over 40 years

Productivity 

Competitiveness 

Sustainability 

The Early Years (1960s)	The Crisis Years (1980s)	The 1992 Reform	Agenda 2000	CAP Reform 2003
<p>Food security</p> <p>Improving productivity</p> <p>Market-stabilisation</p> <p>Income support</p>	<p>Over production</p> <p>Exploding expenditure</p> <p>International friction</p> <p>Structural measures</p>	<p>Reduced surpluses</p> <p>Environment</p> <p>Income stabilisation</p> <p>Budget stabilisation</p>	<p>Deepening the reform process</p> <p>Competitiveness</p> <p>Rural Development</p>	<p>Market orientation</p> <p>Consumer Concerns</p> <p>Farm income</p> <p>Rural development</p> <p>Environment</p>



Consumer concerns, a driving force for policy reform

Europeans want food safety, quality and choice

- Food safety crises in 1990's undermined public confidence in food industry and authorities***
- Need to establish and keep consumer trust; emphasis on assuring safety and providing information***



Since 2000, strengthened food safety policy

- ✓ *Reinforced controls from farm to table*
- ✓ *Traceability since January 1, 2005*
- ✓ *Increased role of scientific advice*



The 2003 CAP Reform – key features

**Adjustment of
intervention level**

**Decoupling of
direct payments**

Cross-Compliance

**Degressivity
Modulation**

**Strengthening
rural development**

**Reinforcing farmers'
market orientation and
entrepreneurial role**

**Improving the transfer-
efficiency of direct
payments**

**Improving the respect
of standards
(environment, food
safety, animal welfare)**

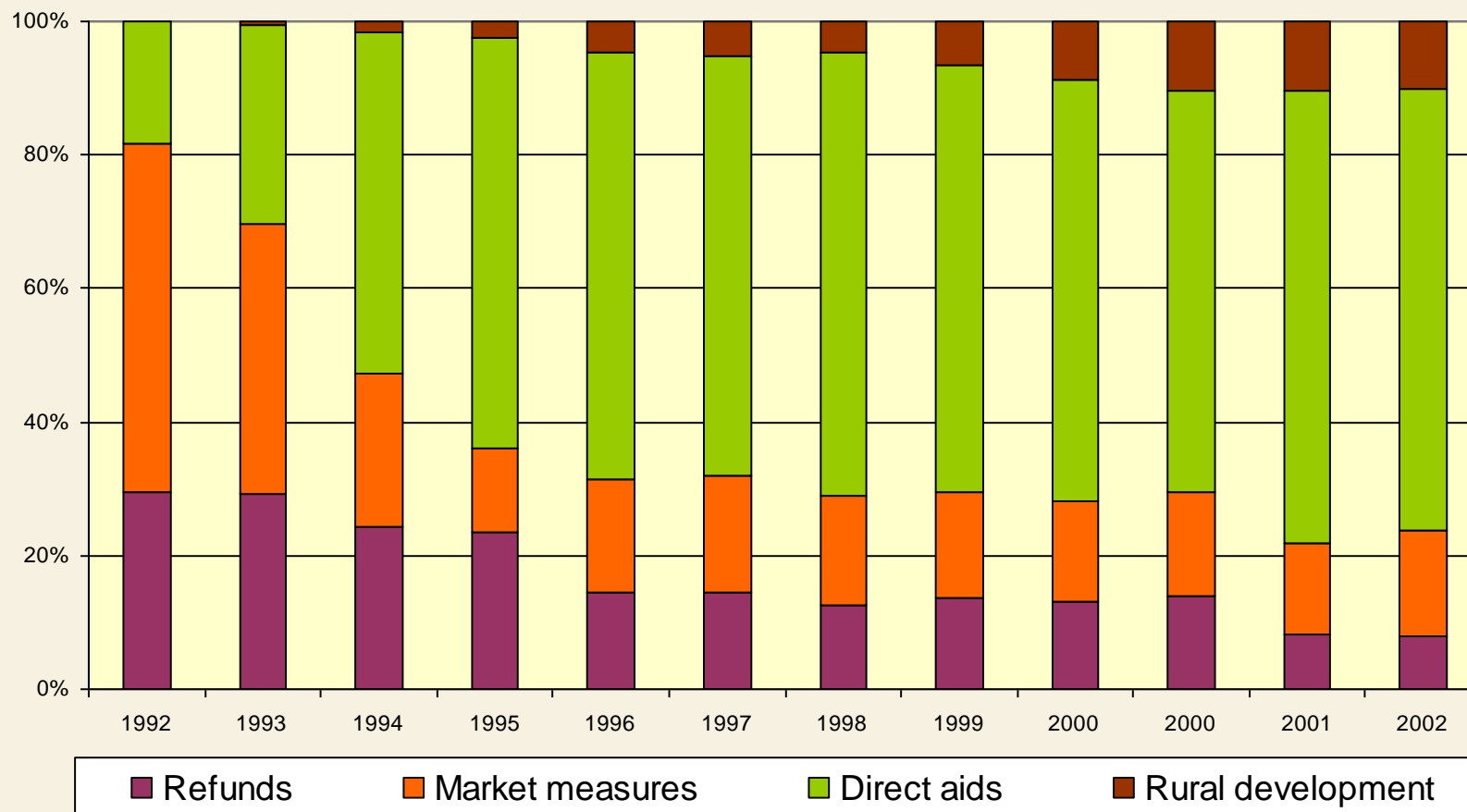
**Consolidation of the
CAP within strict limits
of financial discipline**

**Reinforcing rural
development**

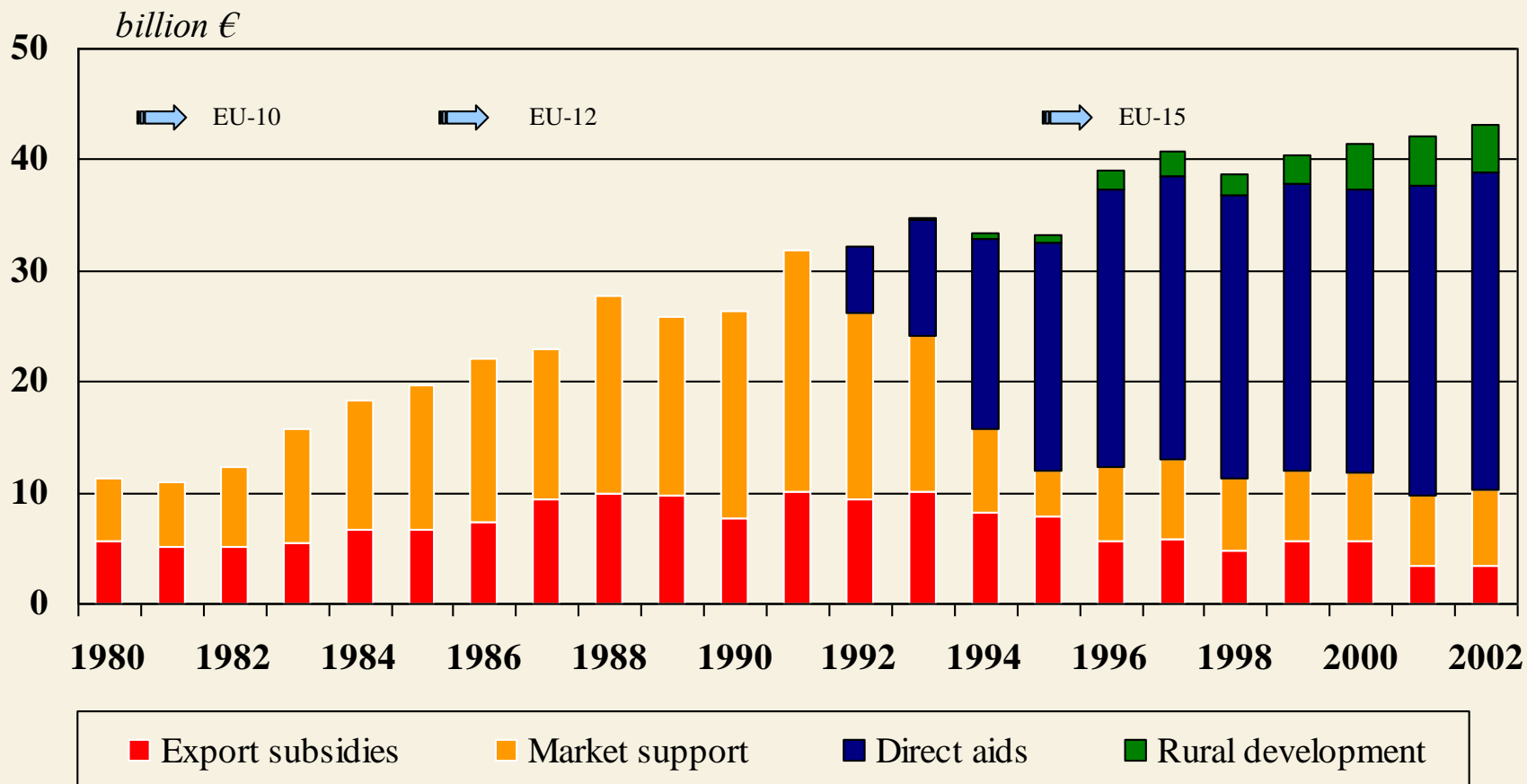


CAP evolution – budget allocation 1992-2002

EAGGF Guarantee section

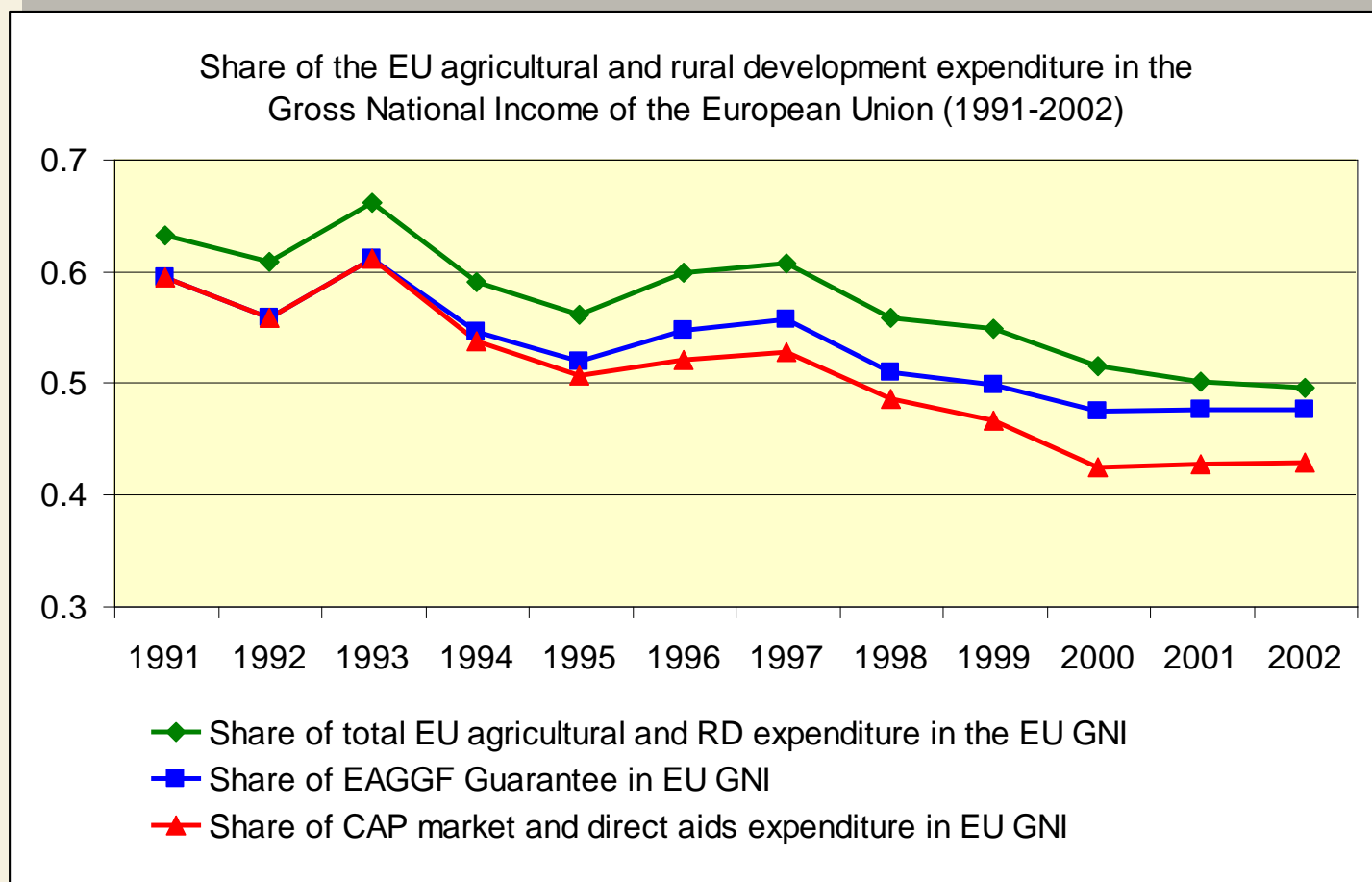


CAP evolution: expenditure – absolute terms



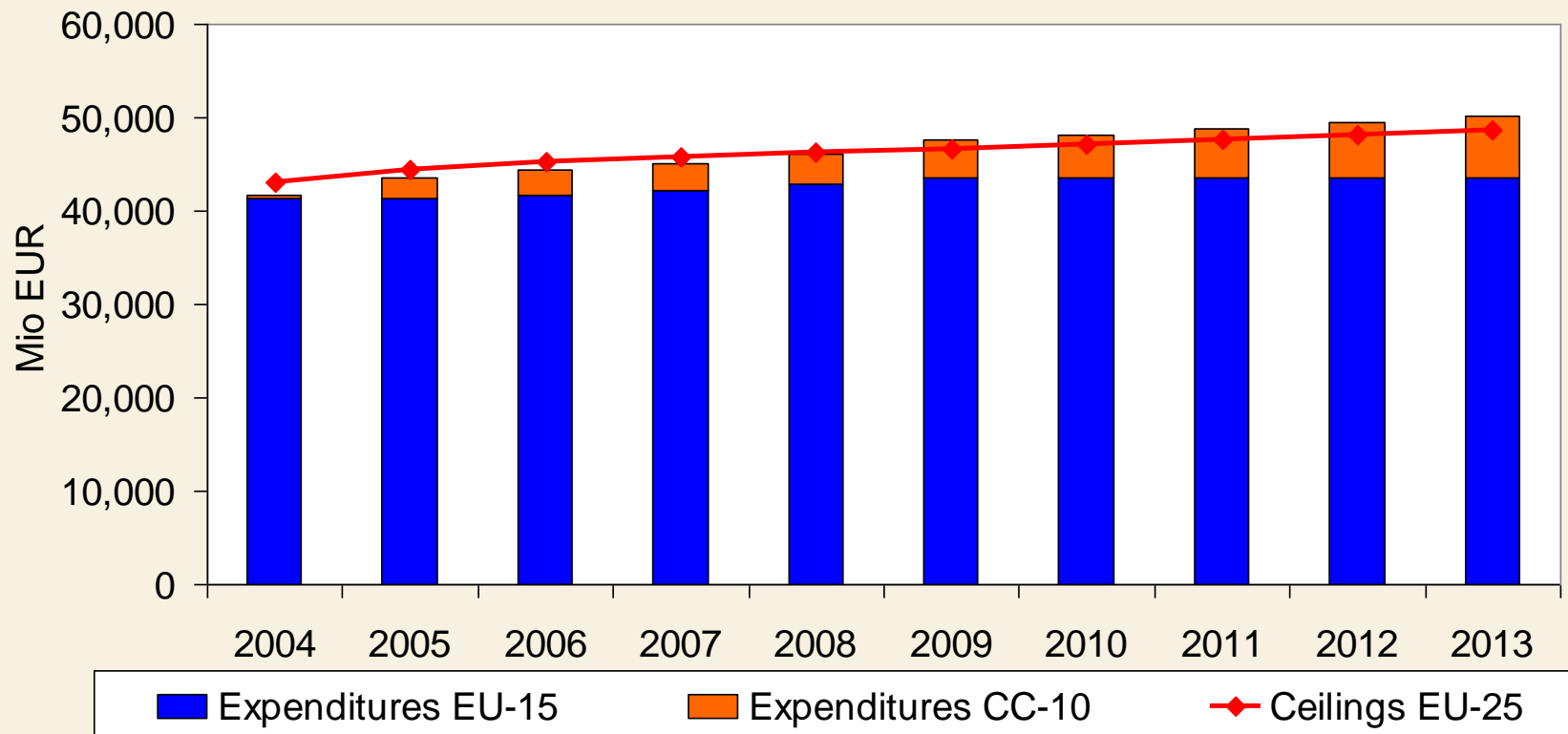
CAP evolution: share of EU Gross National Income

Agricultural budget: *from 0.63% in 1990/92 to 0.49% in 2000/02 and 0.33% in 2013*

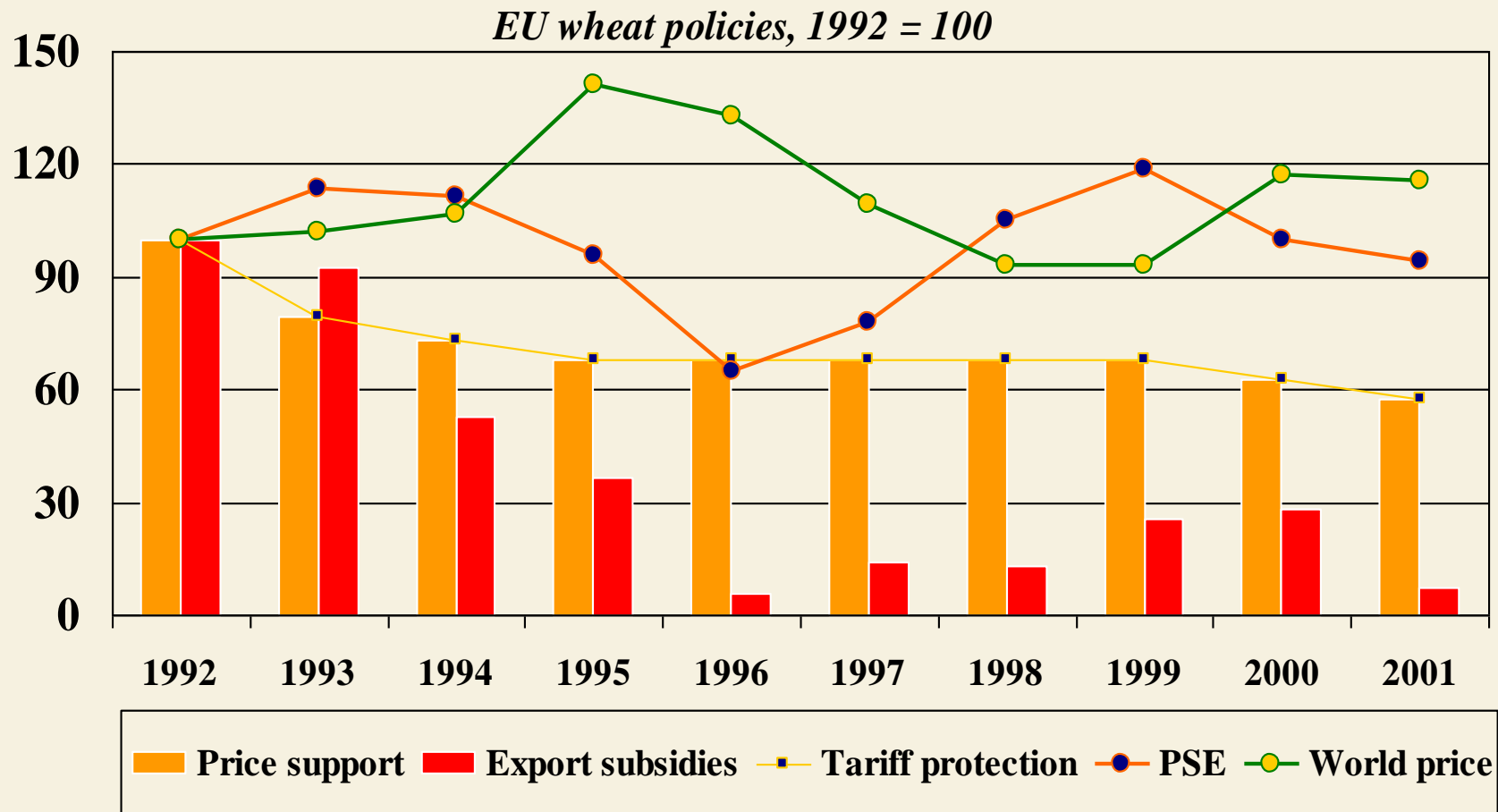


Next: 2004-2013 expenditure and ceiling

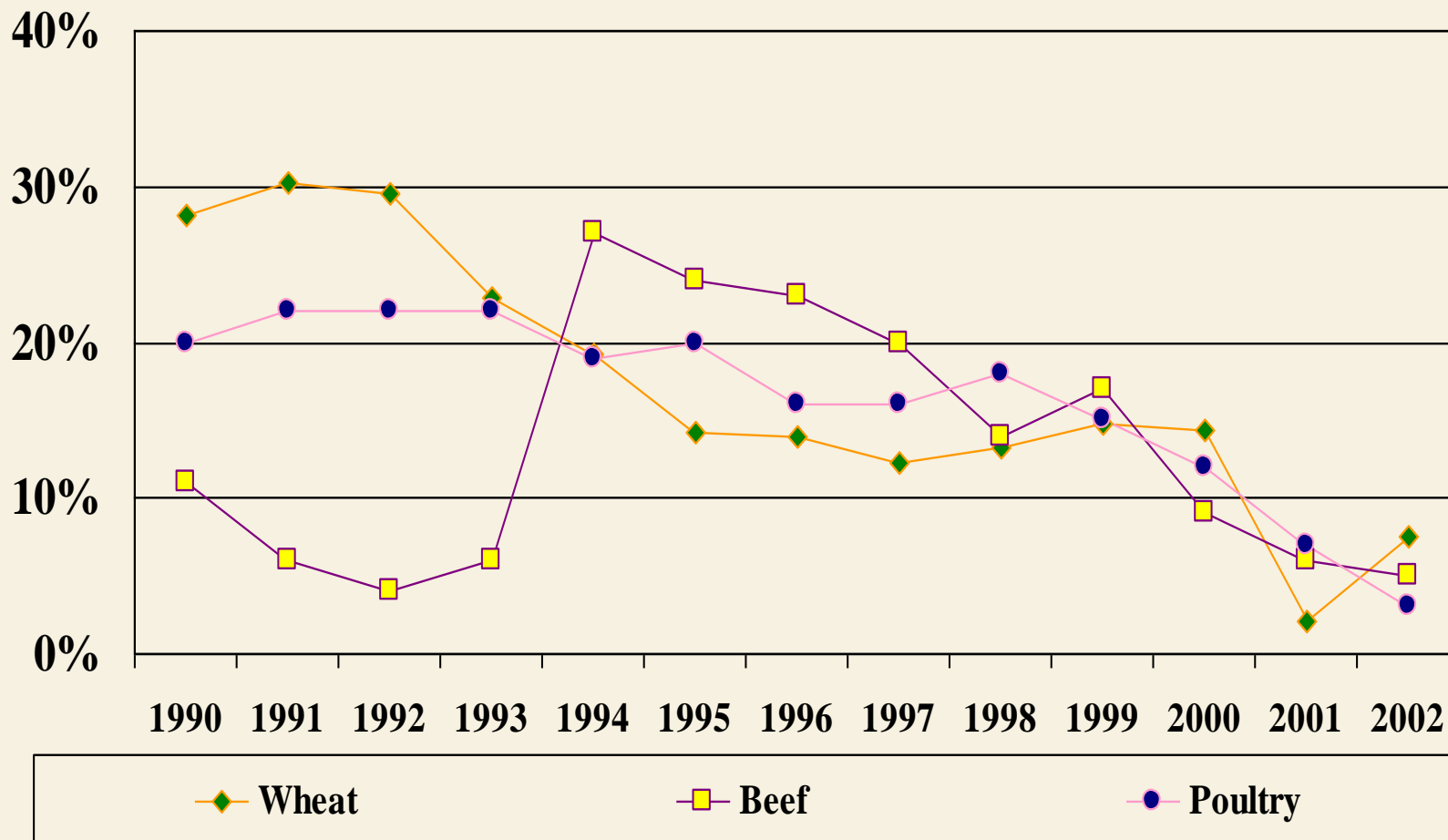
Period 2004-2013



Impact of previous CAP reforms



Impact of CAP reforms on EU net export share



Evolution of EU role in world agricultural trade

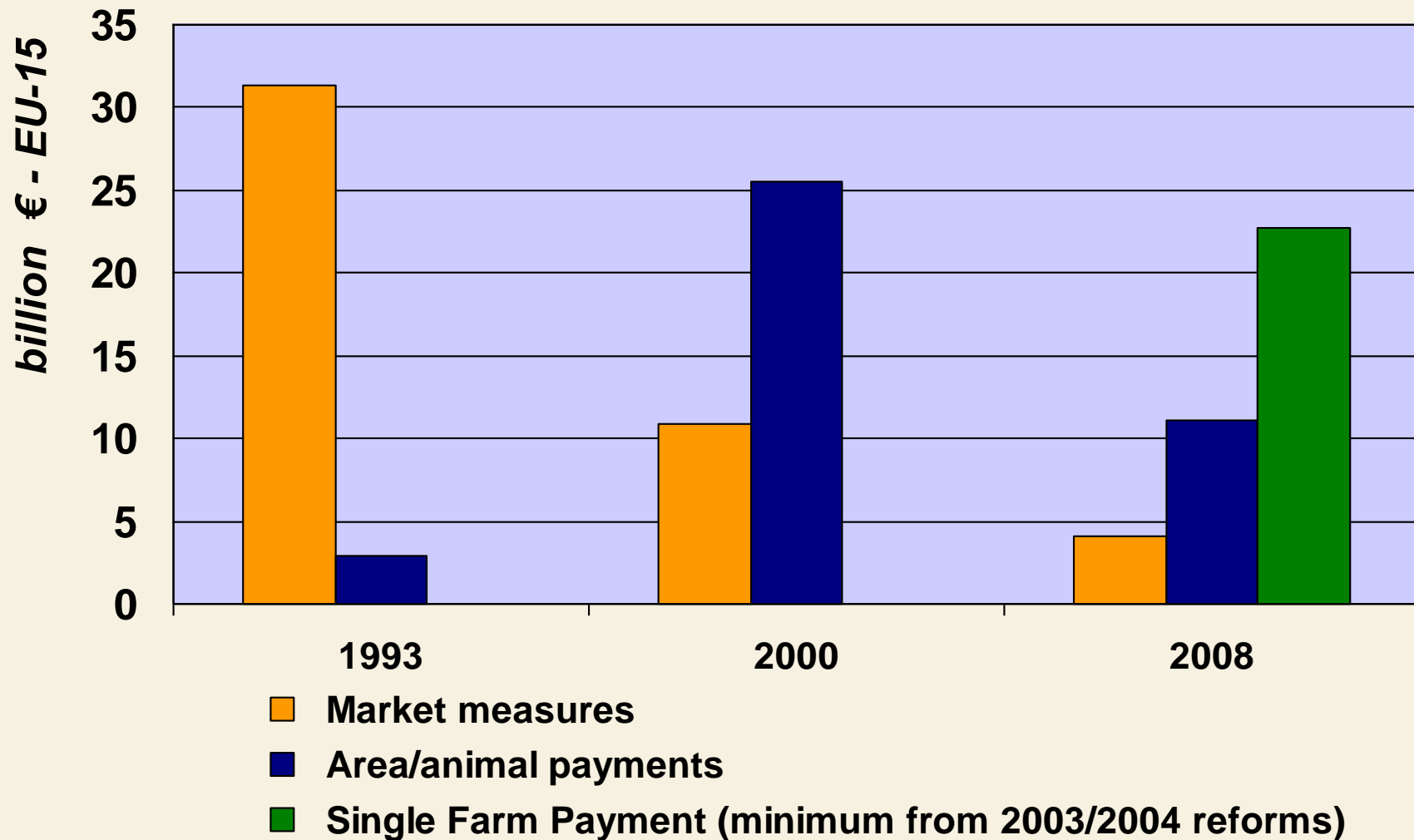
- EU agricultural trade structure balanced***
 - EU agricultural exports mainly (70%) in high value added products***
 - price-dependent bulk commodities represent just 7 % of EU exports***

- net export position of the EU decreased in all sectors***
 - most of this decline is driven by CAP reform***
 - most gains go to Southern Hemisphere (Brazil)...***

- EU = largest market for developing countries***

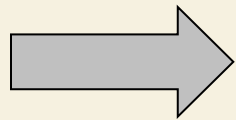


CAP shift from product to producer support



CAP reform and WTO negotiations

- Decoupling means shifting direct payments to the green box (non-trade distorting payments)*
- Prices reduction means reduced need for export refunds*



the EU has done its homework with its CAP reform:

- move on domestic support*
- move on export subsidies*





European Commission
Agriculture and Rural Development



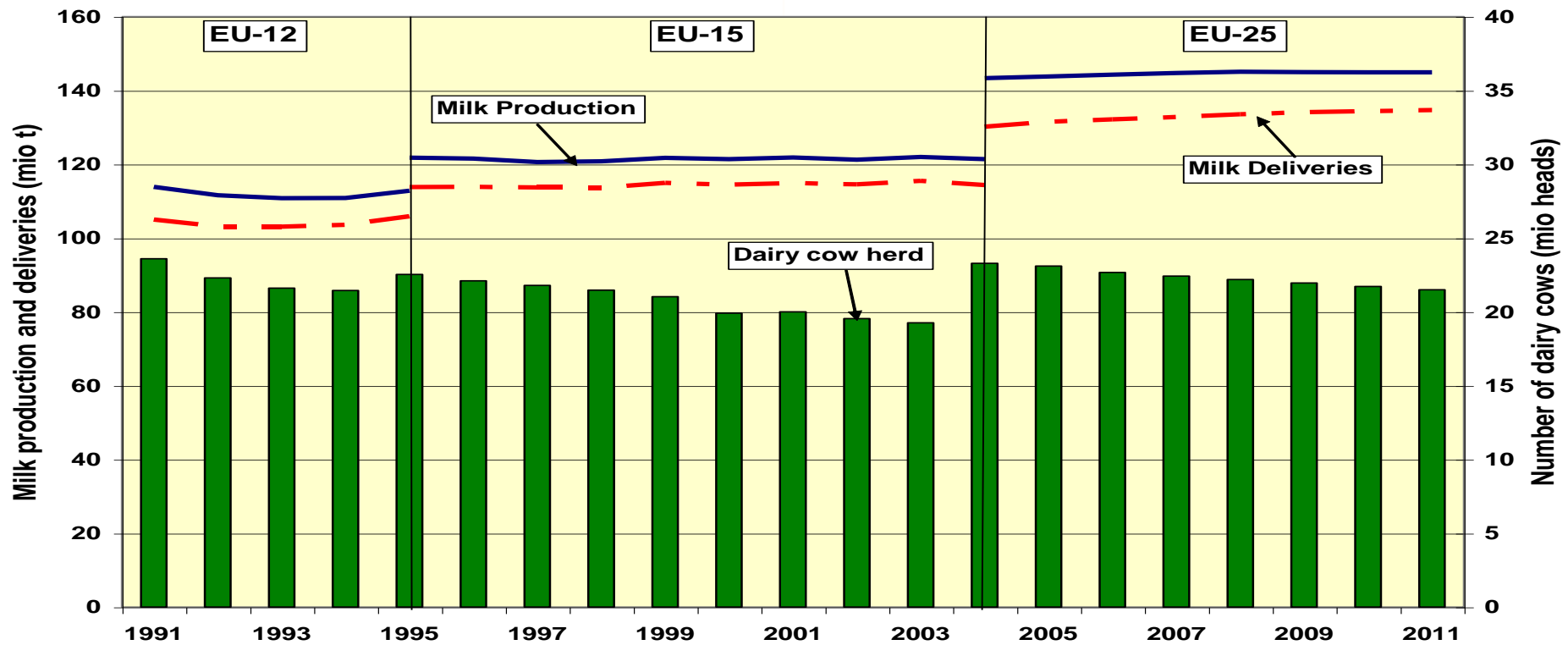
EU Dairy Market

2004-2011 Prospects



Milk quotas to constrain EU milk production while growing milk yields reduce dairy cow herd

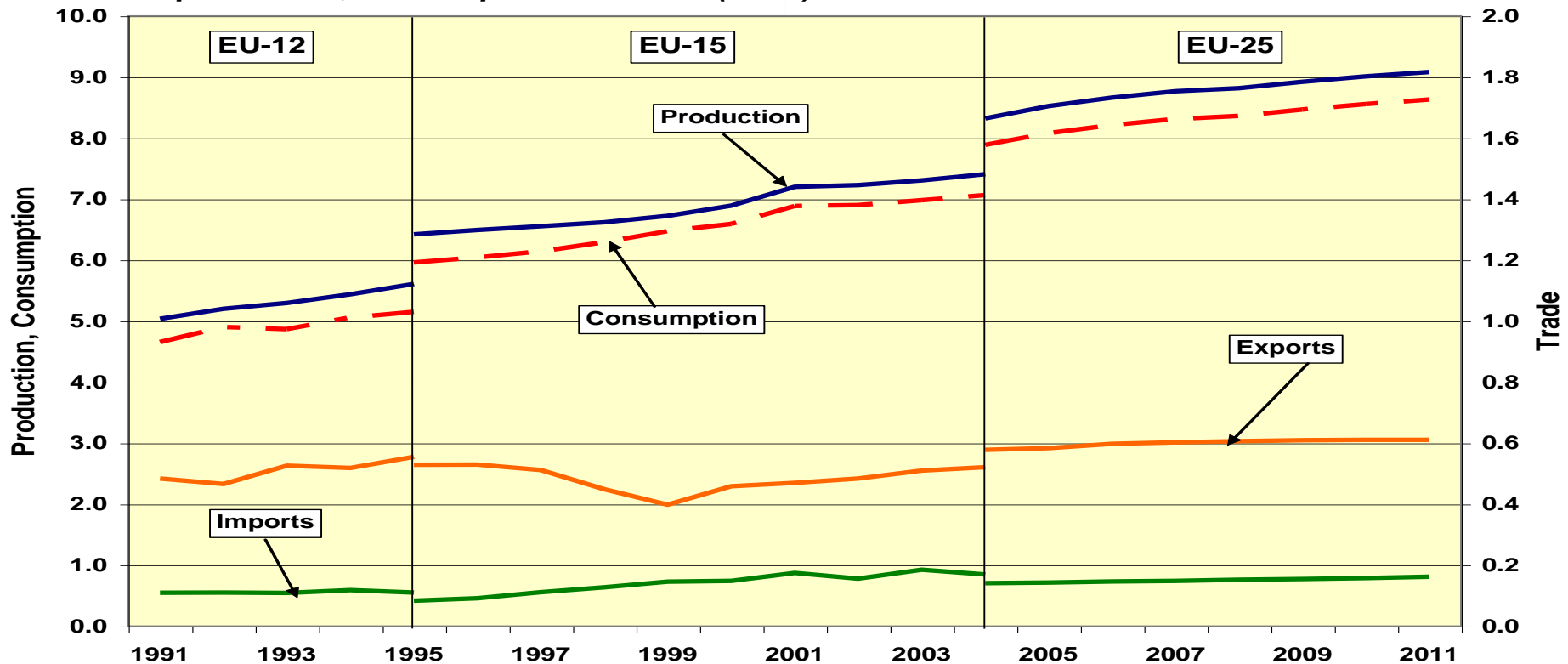
EU milk production, deliveries to dairies, dairy cows





EU cheese market keeps its steady growth over the medium term but exports face limited availability

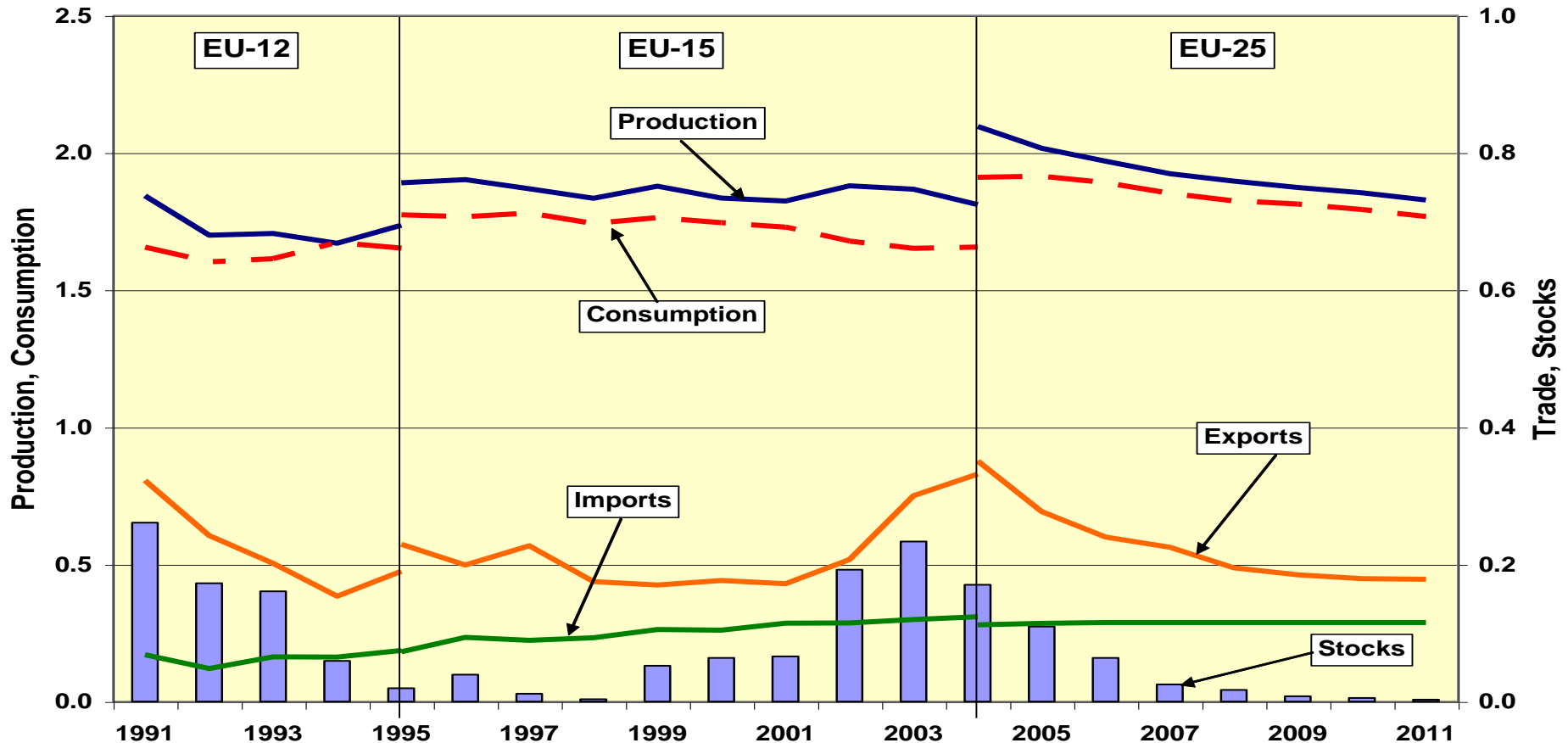
EU production, consumption and trade (mio t)





EU butter balance to improve over the medium-term

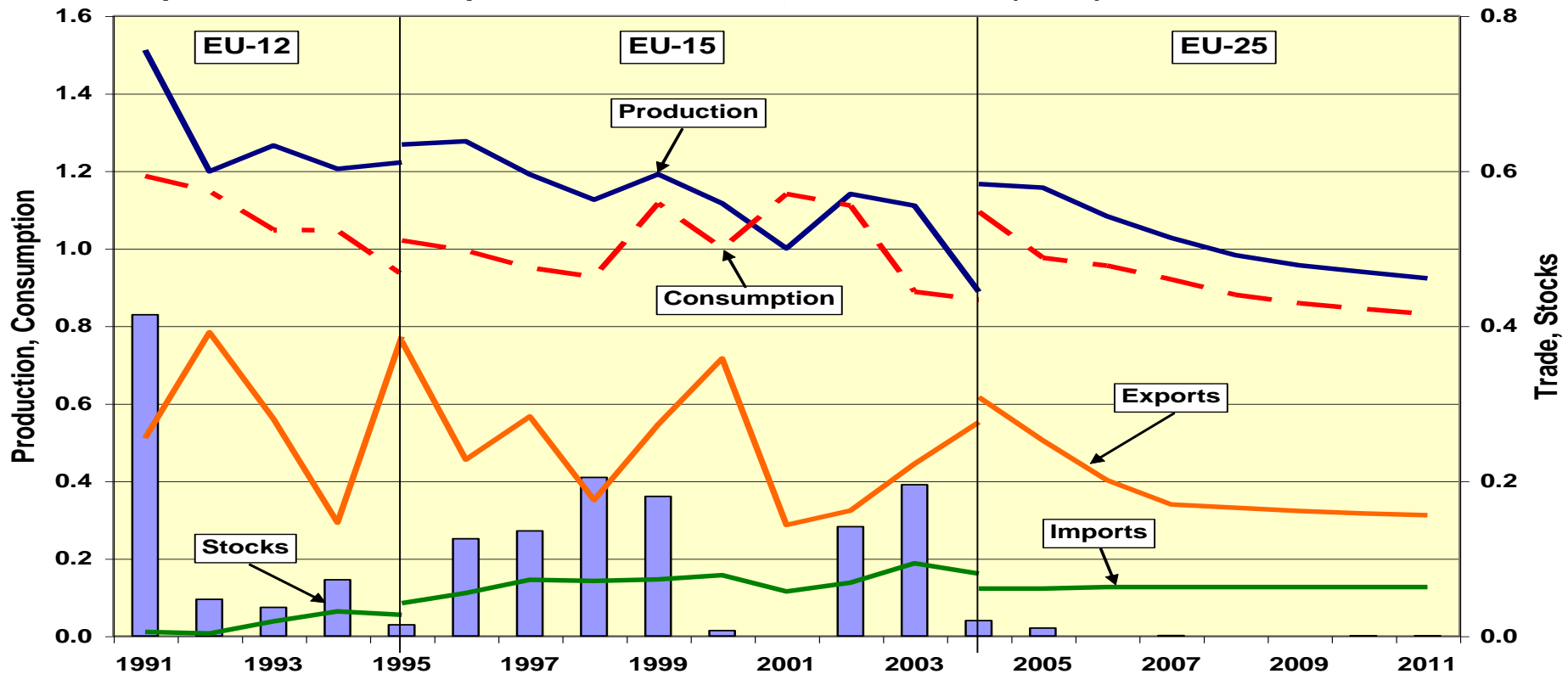
EU production, consumption, trade and intervention stocks (mio t)





EU Skimmed Milk Powder (SMP) market to shrink over the medium term leaving less SMP available for exports

EU production, consumption, trade and intervention stocks (mio t)





Milk and dairy products

- **Medium term perspective appear positive for EU dairy markets thanks to the:**
 - Increase in domestic demand for cheese and other value-added dairy products
 - Decrease in production of residual bulk products like butter and SMP facing lower support and market prices
- **Increasing use of milk for the production of cheeses and other high value-added dairy products for the domestic market limits availabilities for exports**

Thank you for your attention !

