

FAS questionnaire

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I - KEY CHARACTERISTICS OF THE 2014-2016 MILK MARKET DISTURBANCE IN THE MEMBER STATE

- 1 1. Which do you believe were the main causes of the 2014-2016 milk market crisis in your Member State (please select up to three main causes from the list below):
- Effects of the Russian ban**
- Increased price volatility creating market imbalances**
- Oversupply due to favourable weather conditions**
- 2 Optional comments in case you feel the need to explain your choice and/or to give other causes than those proposed:
- The 2015-2016 dairy market imbalance was sparked by a number of elements. Chief among them was a cyclical problem (seen in 2009 and 2012 before): a high milk price in 2013 encouraged a global production increase, helped by extremely favourable weather conditions and cheap feed, leading to a global oversupply. This unfortunately coincided with the elimination of milk quotas in the EU, which assisted to drive market sediment in favour of buyers who benefited off market uncertainty and sought to only lock in short term needs rather than long term contracts. The impact of this global oversupply was exasperated in the EU following the imposition of the Russian import ban. A significant volume (9%) of EU dairy exports in 2013/2014 were to Russia, and that market was closed overnight, with butter and cheese particularly impacted. It took time for new markets for this product to be found.**
- 3 2. Please briefly express your opinion about the severity of the 2014 - 2016 milk market disturbances and indicate the categories of milk producers who were the most affected in your area:
- During the period in question, milk price based on actual fat and protein content fell to 24 cent per litre in Ireland during the peak supply months. This resulted in highly unstable family farm incomes, with the average dairy farm income declining by 16% in 2016, compared to 2015.**

II - DESIGN, IMPLEMENTATION AND ASSESSMENT OF THE MEASURES TAKEN TO MITIGATE THE EFFECTS OF THE MILK MARKET DISTURBANCE

- 4 3. Do you believe that the Commission and Member State exceptional aid during the crisis actually reached the most affected farmers?
- Yes**
- 5 Additional comments, if needed. Please give further details on the criteria used to identify the milk producers who suffered most from market disturbances, if you know them:
- Overall a combination of the tools used did reach the commercial dairy farmers most impacted by the market disturbance and did help in particular with on-farm cash flow and assisting cooperatives to manage the market as best possible during the most difficult times. However as discussed below, some tools (more than others) were effective in achieving this, others were ill-targeted and not cost-effective.**
- 6 4. Before the implementation of Regulation 1613/2016 in your country, did your organisation contribute to public consultations organised to gather points of view of the stakeholders on the types of exceptional measures to be proposed to tackle the crisis?
- Yes**
- 7 Additional comments, if needed:
- ICOS was formally and informally consulted by the Department of Agriculture, Food and the Marine on the types of exceptional measures proposed during the crisis. At EU level, ICOS also actively participated at the Copa-Cogeca Working Party on Milk and Dairy Products and the Civil Dialogue Meetings with the European Commission.**
- 8 5. During the 2014-2016 milk market crisis, did your organisation provide advice to farmers in relation to the exceptional measures available to them according to Regulations (EU) No 1853/2015, No 1612/2016 and No 1613/2016?
- Yes**
- 9 Please give further details:
- ICOS is the umbrella body for the co-operative movement in Ireland. Our membership includes dairy co-operatives and as such we provide advice principally to co-op boards and management. We also provide training on agricultural policy to co-op boards and regional committees on a regular basis and would have provided information on these regulations during this period. Additionally, the dairy committee in ICOS, which is comprised of 15 dairy co-op representatives were fully briefed on the implications of these regulations. In relation to Regulation No 1612/2016, the dairy co-op sector in Ireland managed the reduction scheme on behalf of DAFM. As such, ICOS were responsible for informing co-op management of the scheme, how it would operate, its rules and reporting requirements.**

- 10 6. Do you consider that the choice of the exceptional milk measures to apply in your Member State (based on Regulations (EU) No 1853/2015, No 1612/2016 and No 1613/2016) took into account their side effects on other markets, such as the meat markets?

Yes

- 11 Additional comments, if needed:

The impact of the milk reduction scheme on the beef sector was raised as a concern. The side effects of the scheme should certainly be considered in the future as the timing of the scheme and duration are important factors. The exceptional aid provided under Regulation 1613/2016 was made available to all livestock farmers through a low cost interest rate scheme.

- 12 7. Do you consider that the 'safety net' measures under Regulation No 1308/2013 (i.e. public intervention and private storage of skimmed milk powder, butter and cheese) would have been effective enough to tackle the milk crisis without the support of the exceptional measures set out in the Delegated Regulations (EU) Nos 1853/2015, 1612/2016 and 1613/2016?

No

- 13 Additional comments, if needed:

Given the depth and the duration of the crisis, which was greater than anyone anticipated, it was necessary to bring forward additional exceptional measures to be utilised, as was the case, to assist farmers with cash-flow and to allow them to continue to survive until the market balanced itself out again. In order to encourage efficiencies and less reliance on public support during cyclical events, Member States should be encouraged to provide for taxation measures such as an income deferral scheme. An income deferral scheme operates in Australia and Canada and allows dairy farmers to defer income during periods of high milk prices and to draw down income during periods of low milk prices with taxation paid on drawdown.

III - LESSONS LEARNT AND ACTIONS TAKEN TO PREPARE FOR POTENTIAL FUTURE MILK MARKET DISTURBANCES

- 14 8. Please list the specific exceptional measures which were implemented in your Member State (on the basis of Delegated Regulations (EU) No 1853/2015, No 1612/2016 and No 1613/2016) and which you think were most effective in addressing the milk crisis and the reasons why you consider those measures to have been the most effective (please limit to maximum three measures):

-: Public intervention- It is evident that public intervention was used widely during the period 2015-17 with the vast majority of SMP entering into intervention in 2016 as the volume ceilings were amended. At the time, this provided a much needed bottom to the market. As milk prices recovered driven by butter fat demand, the large volume of SMP in public intervention dragged on the market. Effective tools are needed in future (e.g. calf milk replacer scheme) to ensure large volumes are managed out in a better manner as prices recover, especially when there is a disparity between fat and protein prices.

-: Private Storage Aid-The availability of PSA for butter in 2015 and 2016 was utilised by co-operatives as an important market support measure. The extension of the PSA measure to cheese was also welcome.

-: Cash Flow Support - The exceptional aid provided in 2015 (Regulation 2015/1853) and the Agriculture Cashflow Support Loan Scheme (Regulation 1613/2016) provided much needed income and cash flow support during a very difficult period for Irish dairy farmers. The Agriculture Cashflow Support Loan Scheme utilised the national envelope of €11.1 million allocated to Ireland in Conditional Adjustment Aid. The scheme was developed in cooperation with the Strategic Banking Corporation of Ireland (SBCI) and provided low-cost flexible working capital finance to farmers. Another important cash flow support measure included the advancement of direct payments to farmers. This greatly assisted on-farm cash liquidity.

- 16 9. Please list the specific exceptional measures which were implemented in your Member State (on the basis of Delegated Regulations (EU) No 1853/2015, No 1612/2016 and No 1613/2016) and which you think were least effective in addressing the milk crisis and the reasons why you think they did not produce the expected results (please limit to maximum three measures):

-: Milk Reduction Scheme - The EU milk production reduction scheme resulted in a reduction of nearly 834,000 tonnes of milk with 48,000 farmers taking part (3,858 in Ireland). The data indicates that production across most of the EU had started to reduce well ahead of the introduction of the scheme and it is likely the case that money from the scheme would have gone to those who already reduced output and would have continued to do so. We are sceptical as to whether supply management measures actually work, especially if a future measure was mandatory on farmers, as the European dairy sector operates and competes in global markets. Supply reduction in Europe only serves to reduce European competitiveness and lose its position in global markets to our international competitors. This was an international crisis and the market upturn since in 2017 was the result of an international re balancing of supplies rather than a reduction in volume in the EU alone.

- 18 10. Please list any measures which were not proposed in the three Commission Regulations on the exceptional measures, but which you think may be more effective in future crises:

Calf Milk Replacer Scheme - Industry feedback suggests that much of the SMP stock taken into Public Intervention during the 2015-2016 dairy crisis was sold into the animal feed market in the second half of 2018. This would suggest that embedding a calf milk replacer scheme into the public intervention system, to facilitate the disposal of older stock through the feed industry, would aid the trade of product and prevent prolonged market depression, as was experienced in 2017/2018 (due to the significant levels of SMP in public intervention). Such a scheme would differentiate stock for feed from stock for food and therefore would provide for greater buoyancy in fresh SMP prices. Assisting Farmers with Volatility and Risk - The EU has to be more proactive in helping with the development of price hedging, futures markets, margin insurance and other risk management measures to ensure that farmers and their cooperatives are more protected.

- 19 11. If applicable, please list any measures implemented at the initiative of private organisations in the milk sector (including your organisation) to address or prevent milk market crises (please limit to maximum three measures):

-: Milk Price Support - As a function of the co-operative model, Irish dairy co-operatives supported the milk price during the period by in excess of €100 million, cushioning milk suppliers from the worst effects of the market downturn.

-: Fixed Milk Price Schemes - The Irish dairy co-op sector has provided voluntary fixed priced milk schemes to their member suppliers. Fixed Milk Price Schemes provide an opportunity to farmers on a voluntary basis to fix the price of a portion of milk supply to protect against market uncertainty.

- 20 12. Please provide three key lessons you learnt from the 2014-2017 crisis:

-: The impact of the Milk Reduction Scheme is questionable and must remain as a voluntary scheme if utilised in the future.

-: Public intervention is an effective tool and provided a bottom to the market during the 2014-17 period. However, additional tools are needed such as a calf milk replacer scheme to facilitate the disposal of the stock in an orderly manner, without impacting any market recovery.

-: Financial support for the dairy sector is needed beyond available resources under the CAP, especially during periods of market downturn. This will be exacerbated should CAP funding reduce after 2020 as expected. It is worth noting that EU dairy farmers made a significant contribution to EU financial resources through the milk quota levy over several decades including in the lead up to the end of milk quotas.

21 Additional comments, if needed:

In addition to the points above, an important take-away from the 2014-17 period is that a range of measures are needed to support primary producers and their co-operatives from the worst effects of milk price volatility.

IV - DETAILS OF THE ORGANISATION

22 Details of the organisation

Organisation: **Irish Cooperative Organisation Society (ICOS)**

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