

# MILK QUOTAS

## Commissioner confident of 'soft landing'



**EXCLUSIVE INTERVIEW: Jack Kennedy and Justin McCarthy** get the views of Agriculture Commissioner Mariann Fischer Boel on the abolition of milk quotas, Brazilian beef and sheep sector reform

### Q&A

#### DAIRYING

**In view of the recent Health Check changes to milk quota do you think this will be enough to create the soft landing you desire?**

**MFB:** I'm very happy with the result we got on milk quotas in the Health Check. The final agreement was pretty much exactly what we proposed in the first place, so that is very pleasing.

Our market analysis showed that a gradual quota increase of 1% per year was the best way to prepare the dairy sector for the end of quotas in 2015, and I am confident this is what we need for a soft landing.

**If you have to 'wait and see' what happens, then what other potential mechanisms are open to you to soften the landing?**

**MFB:** I don't think we will have to wait and see, but we have committed ourselves to two reports on the dairy sector — in 2010 and 2012 — and, of course, we will take any

measures necessary to ensure an easy transition to a world without quotas. But I'm pretty confident we've already got the balance right.

**When I first talked to you about reducing the values of quota, well over two years ago when you addressed the European Dairy Farmers Conference in Denmark, you said you would talk to those countries who were looking to retain the quota mechanism. Are you confident all countries are now behind reducing the value of quota to nil?**

**MFB:** I am convinced of it. Frankly, although some countries were resistant to the idea, the phase-out of quotas is a *fait accompli*. We now also have a clear path towards that phase-out. The value quotas had attained in some countries was ridiculous. It acted as a clear disincentive to people who wanted to take up milk production, and this was counter-productive. We need young entrepreneurs in agriculture, just as we do in all other sectors of the economy.

**When we last spoke, you said: "While we had high milk prices, milk quotas had a role, but now that milk prices have collapsed, they have no role." Since then, milk prices have reached record highs, but look like returning to re-**

**cord lows next spring (at least in Ireland). Are you still confident quotas have little role in stabilising the price returned to farmers?**

**MFB:** One of the main reasons for introducing quotas in the first place was to try and regulate the milk price level. The evidence of the past two years shows that they no longer fulfil this role. Last summer and autumn, prices soared. Over recent months, we have seen them slump.

Our conclusion is clear. We need to allow competitive milk producers to exploit the growing market opportunities, both within the EU and in export markets.

At the same time, we need to help small producers in disadvantaged regions, and the best way of doing this is through the new tools we introduced in the Health Check — I'm thinking about the newly-modulated funds, which can be used for the dairy sector, and Article 68 measures.

**When will the Commission act to support the dairy market? Will export refunds be re-introduced, or has this form of support been completely ruled out and if so, why? If they are not ruled out, why hesitate to re-introduce it?**

**MFB:** We always keep an eye on the market and are ready to act if there is a need

— for example, look at our recent decision to bring forward Private Storage Aid for butter by two months. The early signs are encouraging that some producers will use this facility to rebalance our market. As for export refunds, I'm not convinced they are appropriate.

The world market is contracting; prices are falling, and so our volumes are declining. Refunds would arguably further depress world market prices without gaining us extra sales.

#### BRAZILIAN BEEF

**In view of the fact that the last FVO report on Brazil uncovered illegal practices, on the Brazilian side, in the auditing of farms placed on the EU-approved list, are you satisfied that imports of Brazilian beef are produced to EU equivalent standards with regards to traceability, animal health and food safety controls?**

**MFB:** An earlier FVO mission showed that significant progress had been made in relation to all import requirements, with the exception of holding registration, animal identification and movement controls.

To address these deficiencies, the Commission adopted a decision in January 2008 to ensure that Brazilian beef was imported into the EU on a secure basis. From the adoption of this decision, beef imports from Brazil are only permitted if they satisfy the EU import health requirements, including holding registration, animal identification and movement controls.

To check whether this decision was being properly applied, the FVO carried out a further inspection in Brazil between 25 February and 13 March 2008 on a large selection of authorised holdings. The findings of this mission did not justify any further immediate action, as the Brazilian competent authorities are ensuring that beef is sourced only from animals from authorised holdings in

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which all the EU import requirements are respected.

Of course, these include animal and public health and traceability guarantees. A further FVO inspection in Brazil is scheduled to take place in early 2009.

#### SHEEP SECTOR

**The Aylward report on the sheep industry, which was published earlier this year, highlighted a mass exodus out of sheep production across the EU due to the lack of profitability within the sector. What action do you intend to take to reverse this trend and protect the EU sheep flock?**

**MFB:** The Commission acknowledges the decrease in sheep production across the EU in recent years. We realise that this sector deserves particular attention — not

least because sheep are part and parcel of the European countryside, and play a vital environmental role in many regions. For these reasons, the Health Check gave a particular priority to the sheep sector.

From now on, it will be easier to sustain economic activity, such as sheep production, in regions where there are few or no economic alternatives.

The agreement has additional flexibility in that it allows a transfer of funds between sectors under Article 68. Member States may use this possibility to provide decoupled support in the sheep and goat sector.

Thanks to the decision to increase the rate of modulation, additional funding will be available for new challenges: investments in biodiversity, water management,





climate change mitigation and renewable energy projects, as well as innovation and dairy accompanying measures.

The sheep sector will benefit from the funds allocated to these new challenges. It is my firm belief that the Health Check represents a real opportunity for the sheep sector.

#### RURAL DEVELOPMENT

In the recent CAP Health Check, it was agreed that modulation would increase to 10% on a phased basis. The Minister for Agriculture, Brendan Smith, has assured Irish farmers that all this money would be passed back to farmers. Is this not an extremely bureaucratic and inefficient method of supporting rural development? Is providing and maintaining direct payments to farmers not the most efficient method of rural development within the CAP?

**MFB:** No, I firmly believe that the Rural Development Fund must play an increasing role in our policy in the years to come. The increase in modulation is a good step in that direction.

Of course, farmers still receive most of their money through direct payments, but we now have a good Rural Development budget in addition. Rural Development is a very flexible tool to assist farmers and the rural economy.

It can be used for a very wide range of activities — from farm modernisation to environmental projects to diversification, either on-farm or through setting up micro-businesses. It just needs the people who want to benefit from this money to come up with interesting projects.

The newly-modulated money will be used for the new challenges we have identified. Think of the benefits this could bring as Ireland's farmers start to attack the problem of greenhouse gas emissions — as they must start to do. And don't forget that the amount of money

available is actually increased in this way, because Rural Development money is partly co-financed by the national authorities.

#### BEEF SECTOR

On WTO, your own Commission services have calculated that an agreement based on the EU offer — even taking into account sensitive product status — means EU beef imports will increase to 1.2m tonnes and EU beef prices will fall to €2.38/kg. With production costs at €2.80 to €3.00/kg and EU beef prices currently at €3.20, in your view would a 35% price cut and a 140% increase in imports not destroy the European beef sector?

**MFB:** We do not share the view you express on the impact of the Doha Development Agreement (DDA) on EU beef production.

In the impact assessment on the DDA, my services have estimated that the impact of the agreement on the beef sector would consist of a 10% production decrease in 2014, compared to the baseline. But do not forget that this assessment is based on a scenario where only the EU liberalises its agriculture, and not the other WTO Members. It does not include the positive effects of a 54% average tariff reduction in developed countries, where most of our exports of high value products go. So it's clear that the impact assessment overestimates the negative impact on EU agriculture.

The figure of 10% should also be put in perspective, since it is compared to the 'baseline'. The decrease is markedly reduced if compared to the 2006 production level. Various measures adopted in the Health Check, notably the possibility to make use of Article 68 and the increased funds for rural development, will provide the right instruments to moderate the impact for affected sectors like beef.

Let's not forget that, as things stand, there is no agreement in the DDA.

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