



EUROPEAN COURT OF AUDITORS

PRESS RELEASE

Luxembourg, 2009/10/15
ECA/09/63

Special Report:
Have the management instruments applied to the market in milk and milk products achieved their main objectives?¹

Milk production is of major importance in the European Union's agricultural economy. More than one million producers supply 148 million tonnes of milk annually with an approximate value of 41 000 million euro at the farm gate. The milk processing sector (producing mainly cheese, butter and drinking milk) employs around 400 000 people and generates a turnover of 120 000 million euro.

In this Special Report the European Court of Auditors reviews how effectively the European Commission has managed the market for milk and milk products since the introduction of milk quotas in 1984, with reference to the main objectives of EU dairy policy. The Court also highlights the most critical issues to be considered in the progressive deregulation of the milk sector, which was started in 2003.

The EU dairy policy aims to achieve wide and somewhat conflicting objectives, including reaching **market equilibrium**, **stabilising the prices** of milk and milk products, ensuring a **fair standard of living for producers**, and improving the **competitiveness** of European milk products. The Court analyses to what extent these objectives have been achieved, emphasizes critical issues, and, in the light of the data available at the end of 2008, makes a series of recommendations to the Commission.

With regard to **market equilibrium**, the Court concludes that milk quotas have effectively limited production, but that their level has proved to be too high for a long period of time, compared to the market's capacity to absorb the surpluses.

The Court recommends that monitoring the development of the milk and milk product market should continue, so that liberalisation of the sector does not lead once again to over-production. Failing this, the Commission's objective of keeping to a minimum level of regulation, of the safety net type, might rapidly prove impossible to fulfil.

As for the objective of **stabilising prices**, the Court finds that the nominal milk producer price varied little during the 1984-2006 period compared with the period before the introduction of quotas. However, in real terms, the milk producer price has fallen continuously since 1984. The producer price for milk and the consumer price are not moving in parallel because they are subject to different parameters.

The Court recommends that the price formation process in the food industry should be subject to regular monitoring by the Commission. The concentration of processing and retailing companies must not reduce milk producers to “pricetakers”, and must not restrict opportunities for final consumers to benefit fairly from decreases in prices.

Regarding the objective of **ensuring a fair standard of living** for producers, the Court notes that the average income of milk producers remained slightly above average farm incomes. However, if the statistical average income of milk producers has remained steady, or even increased, this is due to a variety of reasons, including higher productivity, the increasing share of assistance measures in producers’ incomes, and a steady fall in the number of holdings. The EU-15 lost half its dairy farms between 1995 and 2007; more than 500 000 producers gave up during this period. The trend towards consolidation of production is expected to continue, and even accelerate, with production declining or disappearing in less-favoured areas and a concentration of production in intensive areas.

In-depth reflection should be given to strategies to tackle the special problems of those regions where milk production is most vulnerable, in particular in mountainous areas, and to tackle the environmental consequences of a geographical concentration of milk production.

With regard to **competitiveness**, the Courts notes that the EU share of world trade in milk products has been declining since 1984. The European producers of basic milk products (butter and milk powder) are only competitive on world markets when prices are high. For those products the world market will remain a secondary market. Only producers of cheeses and other products with high added value will be able to claim sustainable market shares.

The Commission and the Member States should therefore focus primarily on satisfying the needs of the European domestic market, and also on the production of cheeses and other products of high added value which can be exported without budgetary assistance.

¹ The purpose of this press release is to give a summary of the Special Report adopted by the Court of Auditors which is available on the Court’s Internet site (www.eca.europa.eu) and will be published shortly in a printed format.

COMMUNICATION AND REPORTS – PRESS OFFICE

12, rue Alcide De Gasperi - L - 1615 Luxembourg
Tel.: (+352) 4398 45410 - Fax: (+352) 4398 46410 – Mobile (+352) 621 55 22 24
e-mail: press@eca.europa.eu