



Duties & subsidies: Evil for the dairy world market ?

Philippe Chotteau
Head Economics Dpt

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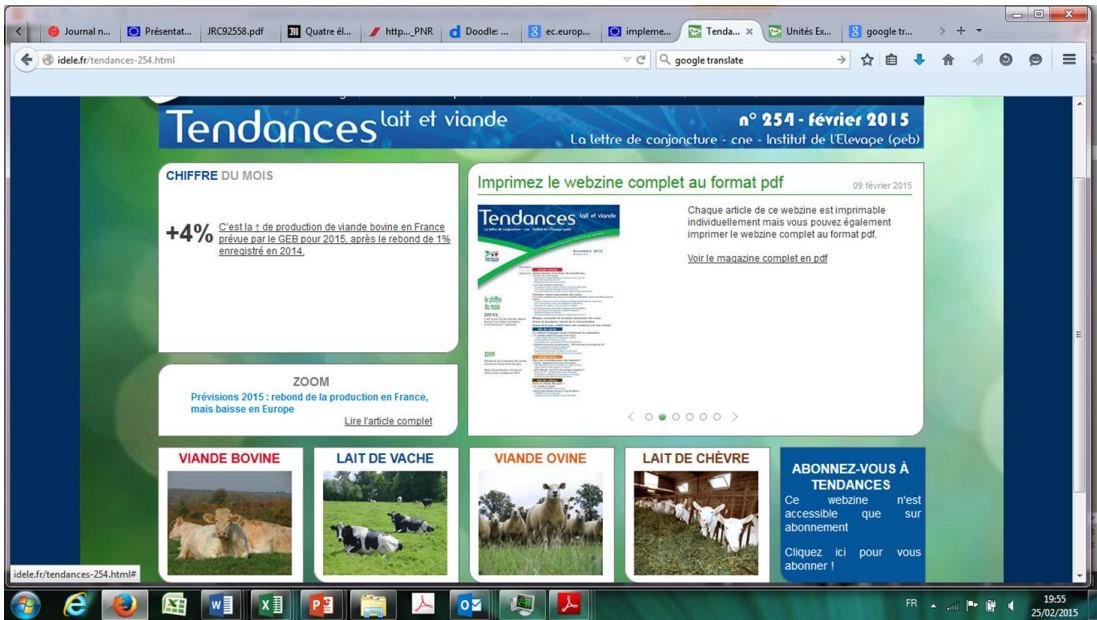
Institut de l'Elevage: a specialized R&D organization



Economics Dpt

ECONOMICS

- Markets analysis:
2 monthly publications



ECONOMICS

- **Markets analysis:**
1 quarterly publication
About animal production
& Feed in China
(collaboration with Ifip
& Itavi = ABCIS)

Chine_Abcis

La lettre de veille et d'analyse de l'économie
de l'élevage en Chine

中国农牧业经济情况分析杂志

N° 17 Été 2016

Édito

Un moindre attrait pour les viandes ?

La Chine vient de réviser ses recommandations nutritionnelles, pour la 3^e fois depuis leur création en 1989. Si les objectifs pour les légumes, les céréales, l'huile et les produits laitiers n'ont pas été modifiés, les recommandations pour le soja et les fruits ont été abaissées. Mais ce sont les objectifs pour les viandes qui ont surtout retenu l'attention. En effet, les recommandations nutritionnelles chinoises pour les viandes, 75 g/hab/j, sont bien inférieures aux disponibilités (ajustées à la consommation) publiées par la FAO, d'environ 170 g/hab/j en 2013. Cet écart signifie-t-il une réduction à venir de la consommation de viande ou même de protéines animales ?

Non, et pour trois raisons.

La première est que les révisions de 2016 ne modifient qu'à la marge les précédentes recommandations. Celles pour la consommation quotidienne de viande sont passées de 50 à 75 grammes par jour en 2007 à 40-75 grammes, soit une baisse de 20 % du seuil minimal. Les recommandations pour les produits de la mer sont abaissées de 50-100 grammes à 40-75 g/jour. À l'inverse, la recommandation d'œufs et d'ovoproduits a été relevée de 25-50 grammes à 40-50 g/jour tandis que celle des produits laitiers reste inchangée à 300 gr/jour. La modification est donc très limitée, et même en hausse si l'on agrège les produits animaux (hors produits de la mer) : de 375-425 grammes/jour à 380-425 grammes. Le guide recommande cependant de consommer davantage de viande maigre.

La deuxième est que, malgré les recommandations de 2007, les disponibilités en viandes de la Chine, calculées par la FAO, ont progressé de 20 % entre 2007 et 2013, dernière année disponible. La publication de 2007 n'avait donc eu aucun effet sur la consommation chinoise.

La troisième tient aux grandes disparités de consommation en Chine. Si le régime alimentaire s'est, en moyenne, fortement transformé depuis le lancement de la politique de réforme et d'ouverture en 1978, la consommation moyenne d'un Chinois n'a pas grand sens. Les catégories plutôt aisées ont un profil de consommation proche de celui des pays occidentaux, tandis que les plus pauvres sont toujours sous-alimentés. En effet, la proportion de Chinois en surpoids était estimée en 2010 aux alentours de 30 % des adultes, et à 12 % chez les enfants et adolescents. Ce chiffre est en forte hausse depuis 2002 (+50 %) et a triplé depuis 1991. La prévalence de l'obésité se montait alors à 12 % chez les adultes et à 1 % chez les adolescents de 12-17 ans. À l'autre extrémité du spectre, 11 % des Chinois sont encore sous-alimentés en 2013 selon la Banque Mondiale, soit encore près de 150 millions de personnes, un nombre pourtant réduit de moitié depuis 1990.

L'avenir de la consommation de produits animaux en Chine ne sera pas dicté par le respect de ces recommandations, presque inchangées, mais dans le rapprochement des modes de consommation entre les citoyens les plus pauvres, souvent ruraux, et les plus riches, souvent citadins. La diminution de consommation en ville, surtout des très riches, pourrait être plus que compensée par la poursuite de l'augmentation en campagne.



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Approvisionnement en grains

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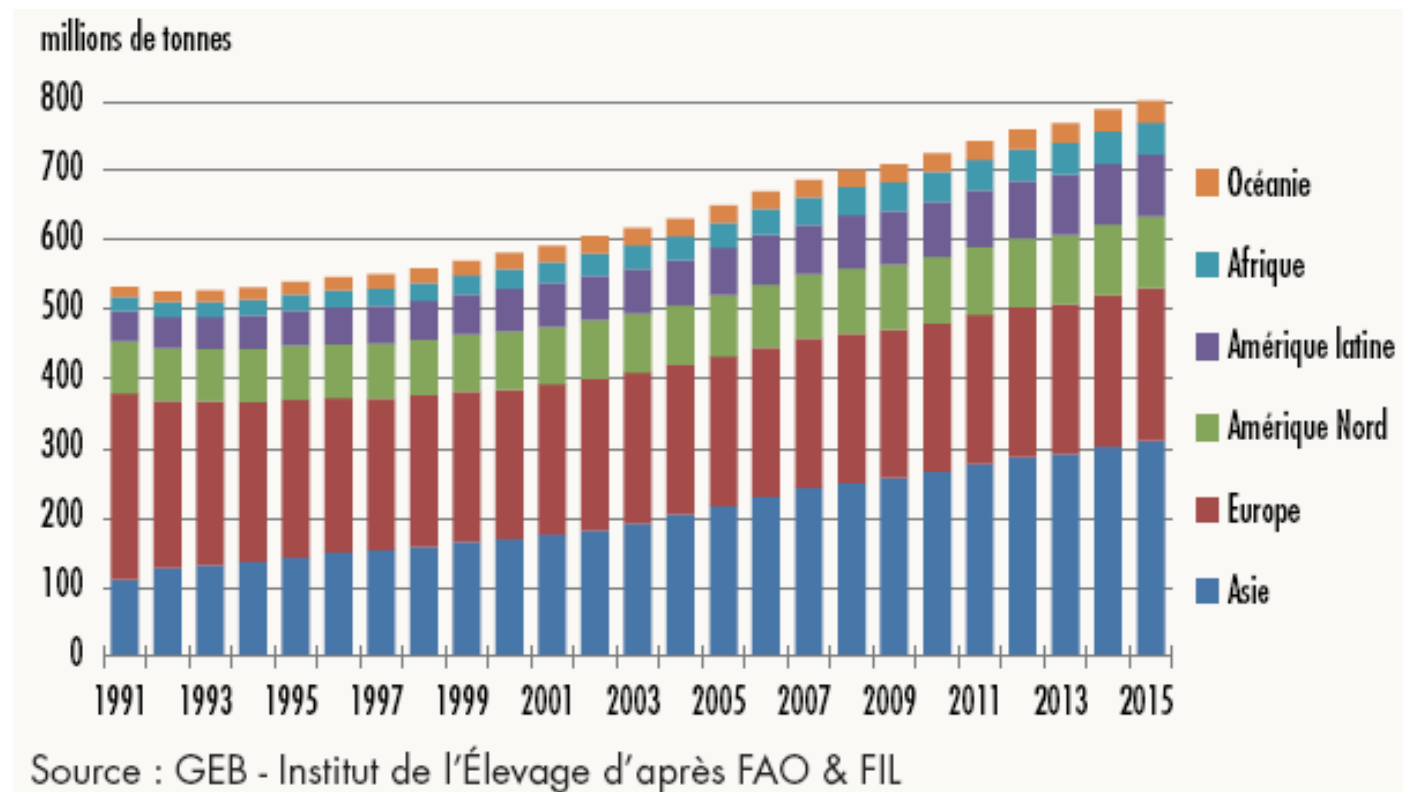
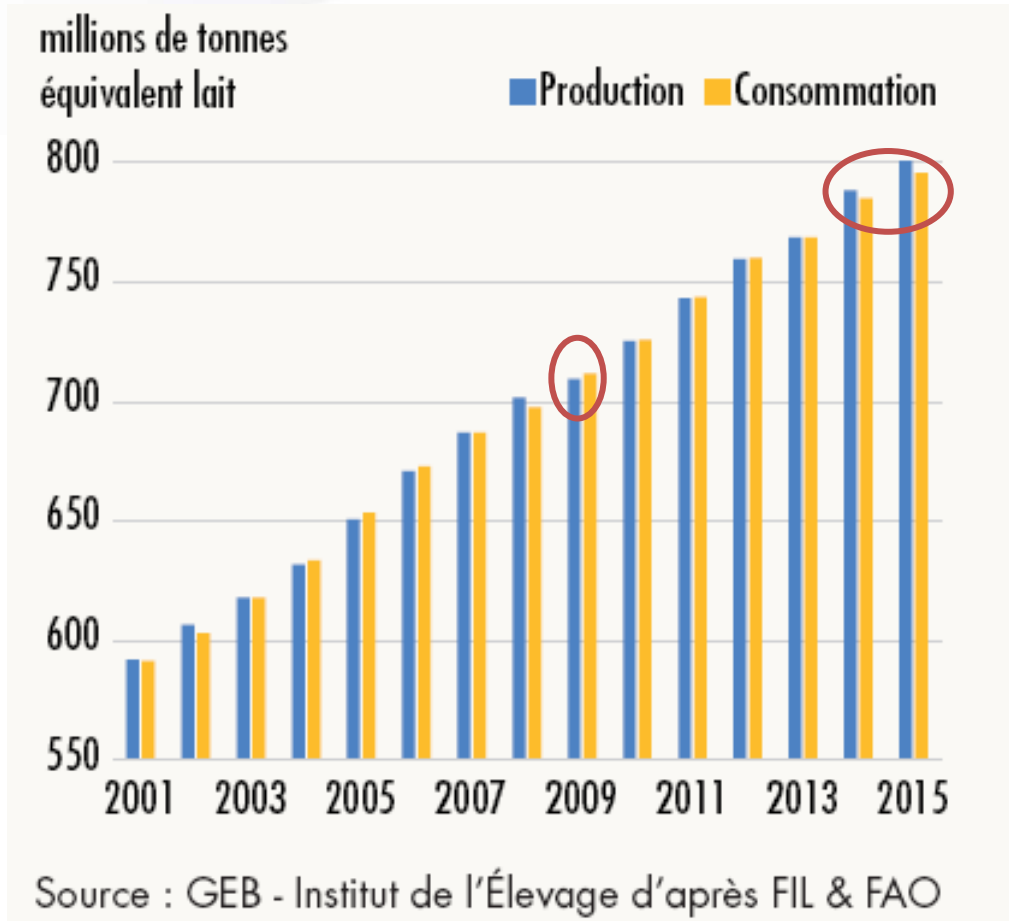
Bovin lait

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Plan of my speech

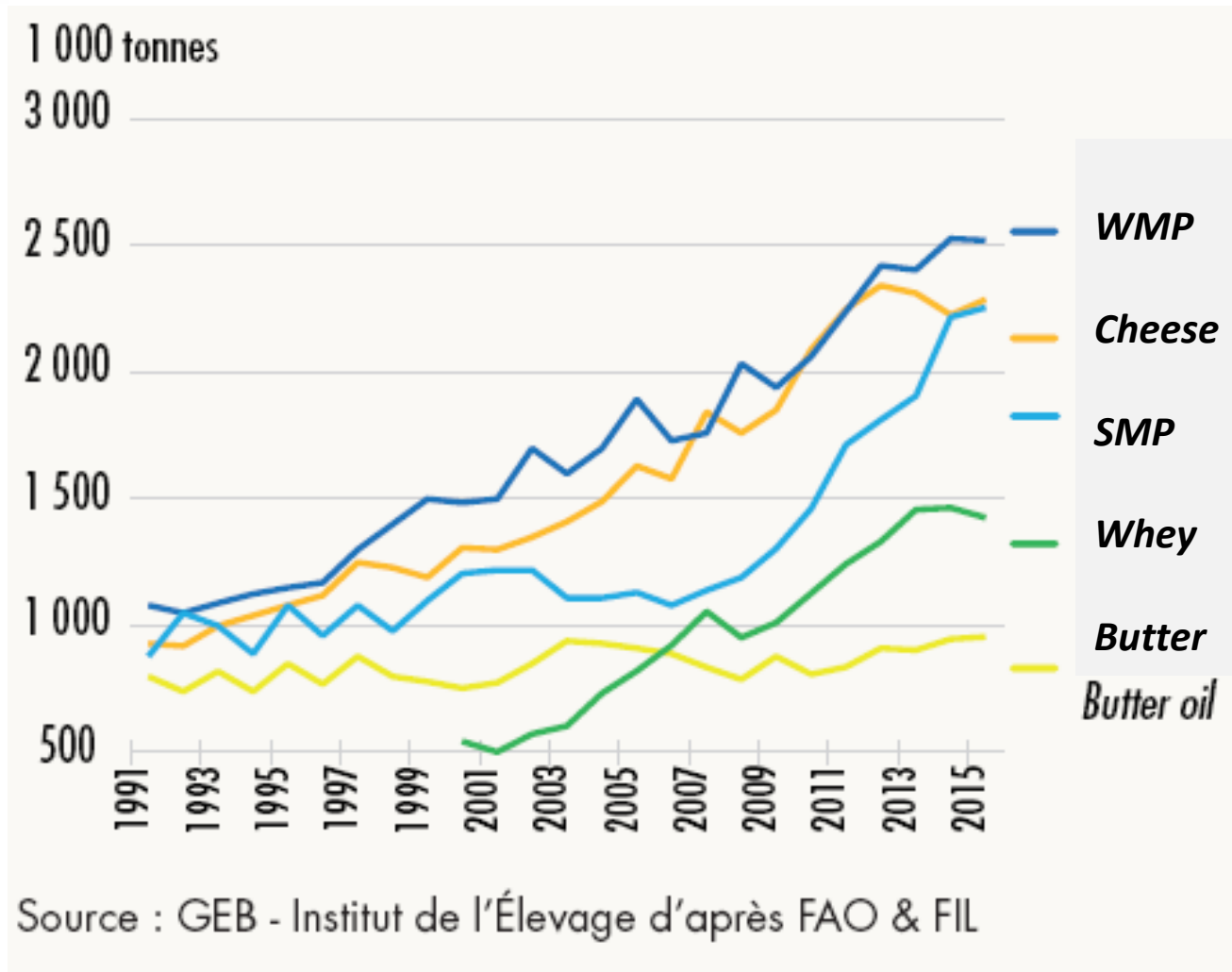
1. **Expansion of the World Dairy market: first driven by local consumption.**
2. **Custom duties, tariffs rate quotas... Some impacts on the World Dairy Trade**
3. **Subsidies at the farm level and their impact on dairy farms returns in 2015**
4. **The CAP implementation in different EU countries and different implicit philosophies**
5. **Some measures to mitigate the present crisis.**

A sharp increase in the dairy consumption... first fed by local productions

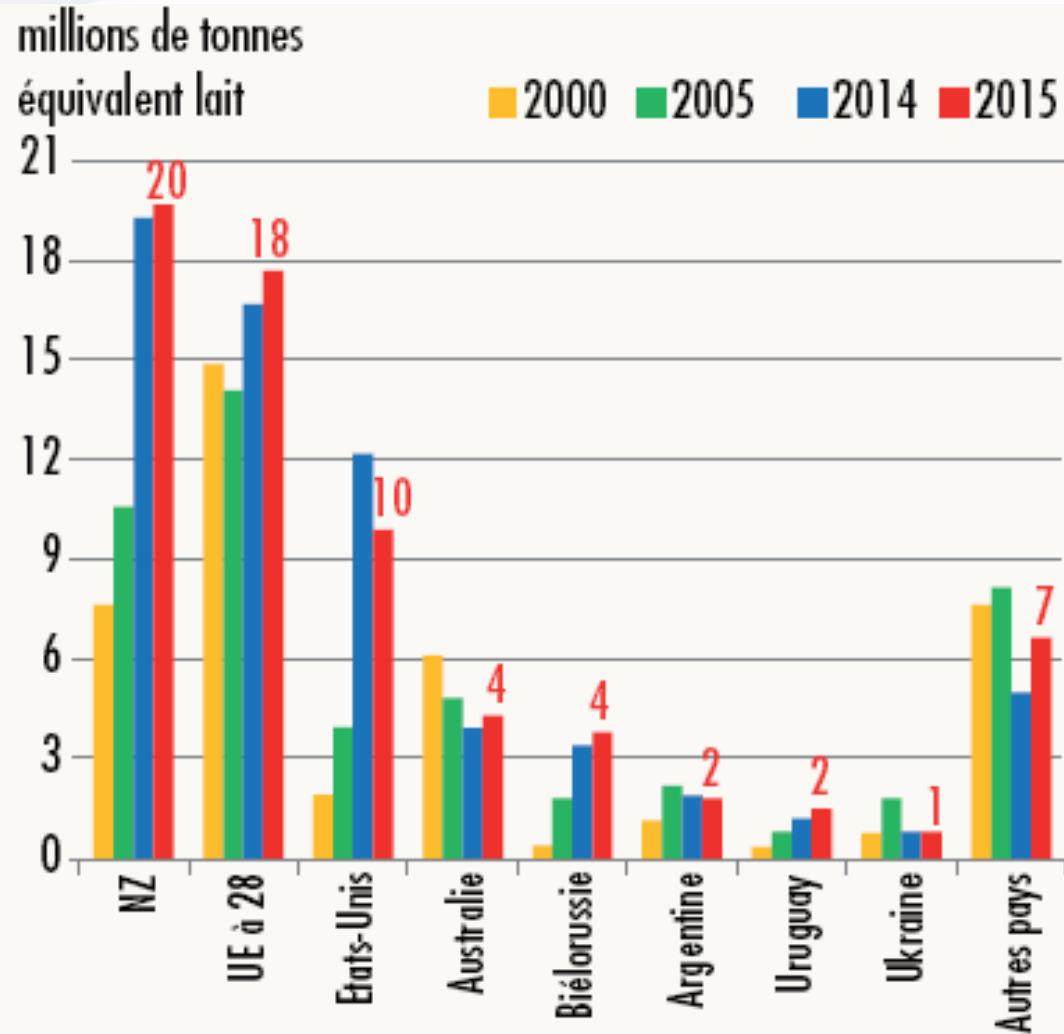


All milks : cows, buffaloes, ewes, goats

But also an increase in World dairy trade



Always the same main suppliers since 2000

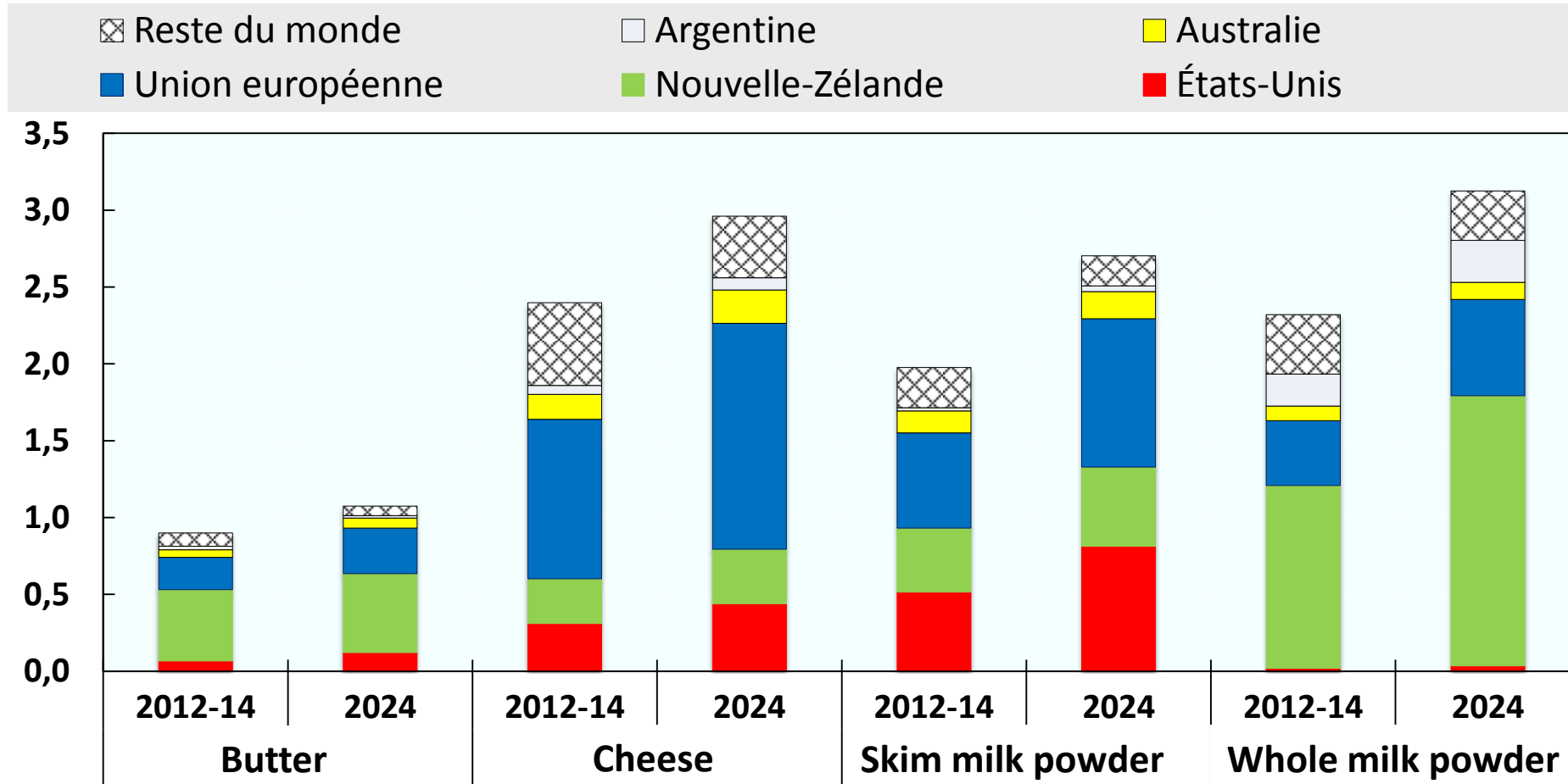


Source : GEB - Institut de l'Élevage d'après FIL & FAO

No real new comers...

NZ, the EU and the US dominate even more the market than 15 years ago

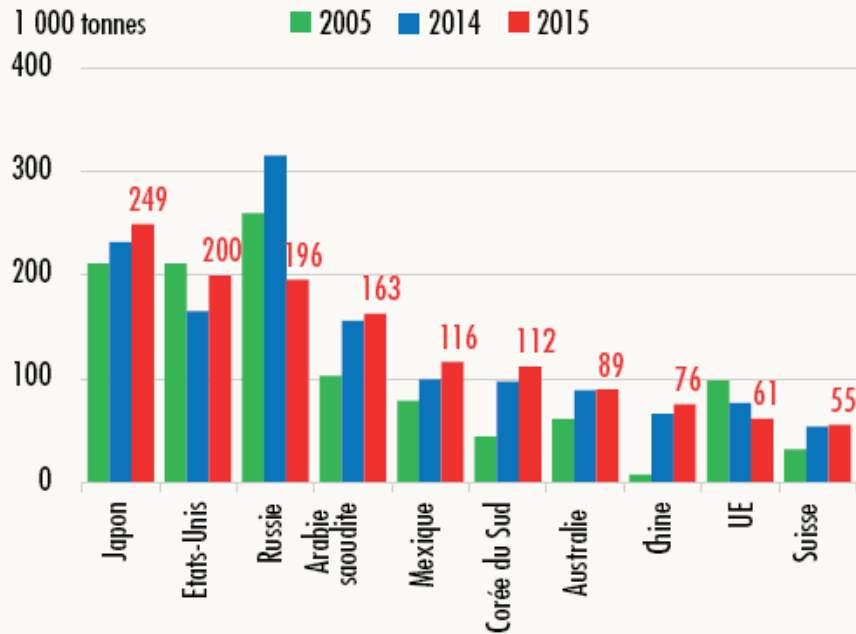
According to the FAO/OECD outlook, this wouldn't change in the next 10 years



Source : OCDE/FAO (2015), « Perspectives agricoles de l'OCDE et de la FAO »,

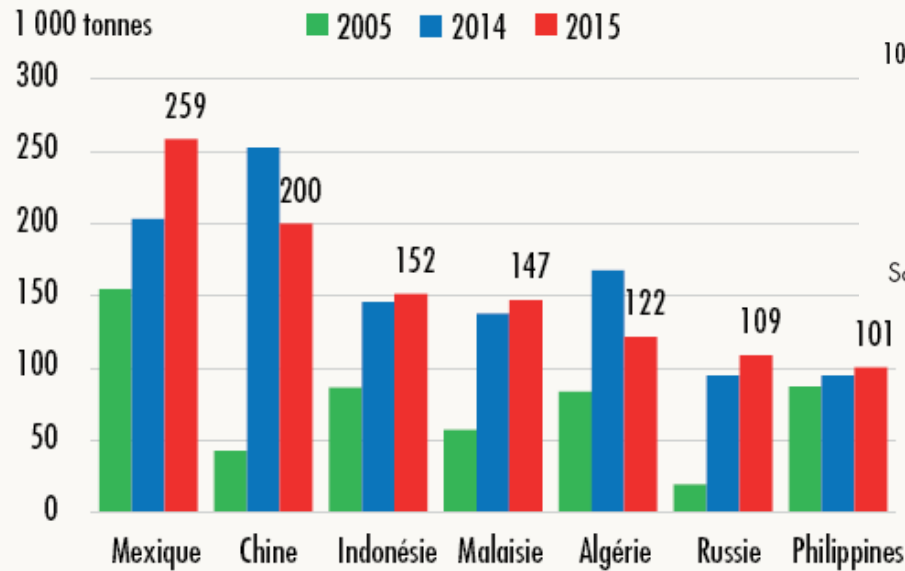
But more & more destinations

Cheese importers

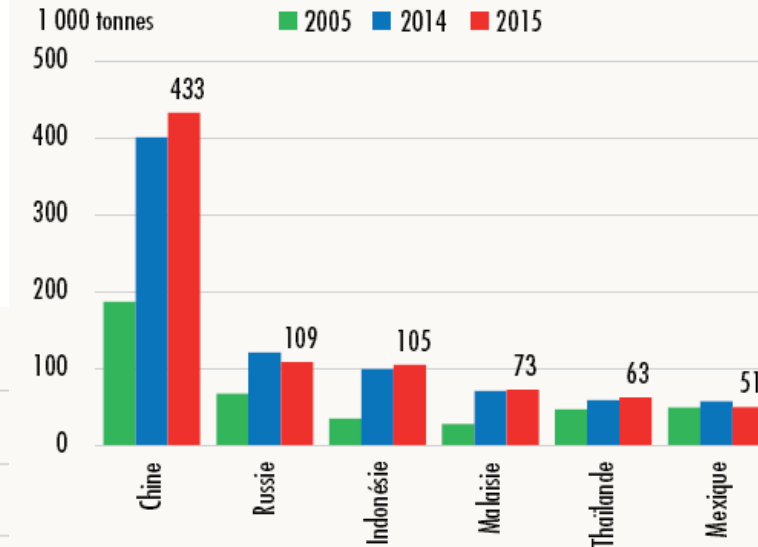


*fromages à base de matières grasses végétales exclus
Source : CNIEL d'après Douanes nationales & Trade Map

SMP importers



Source : CNIEL d'après Douanes nationales & Trade Map



Source : CNIEL d'après Douanes nationales & Trade Map

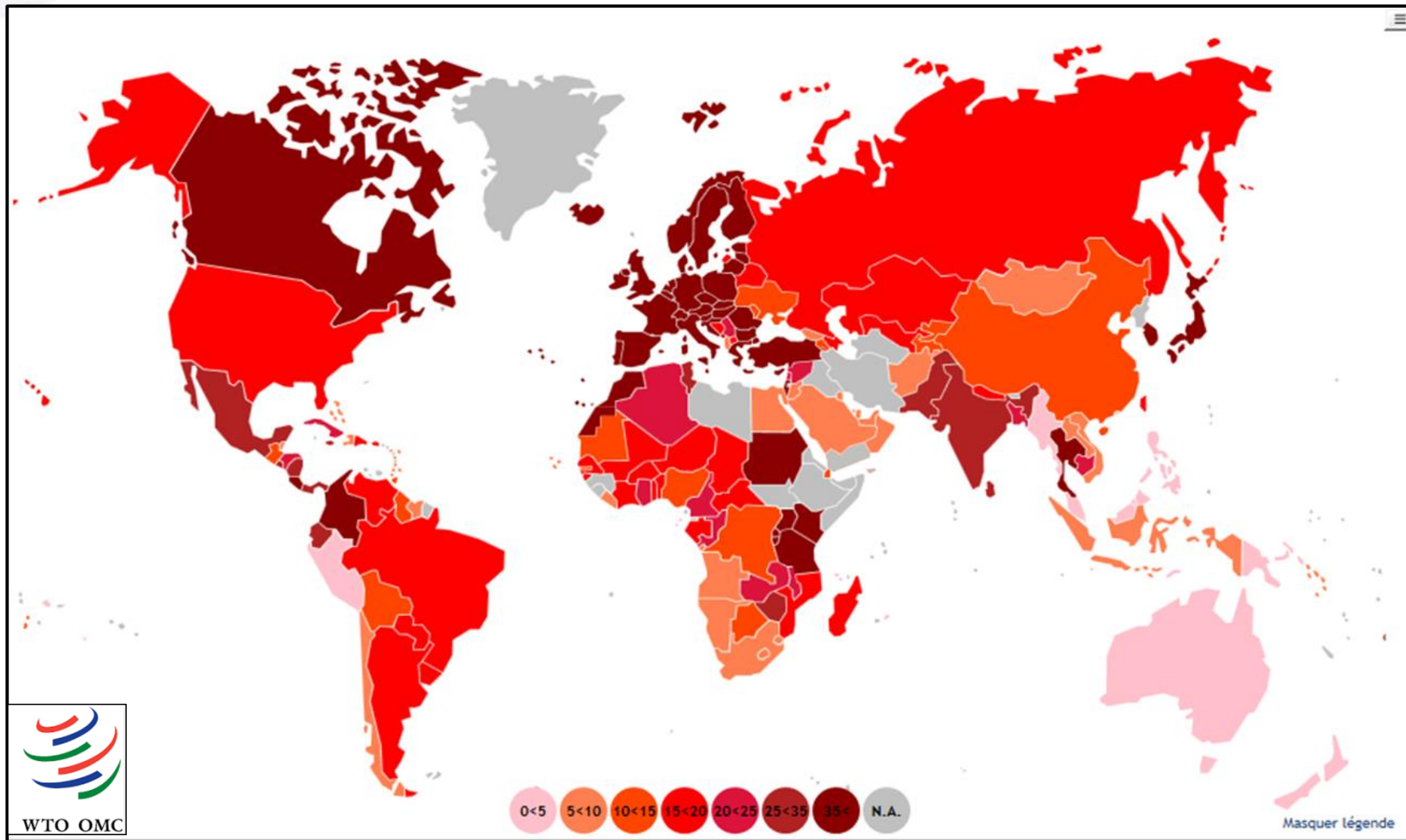
Whey importers

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A large range of tariffs...

Average MFN tariffs applied to dairy products (ad valorem equivalent, %)

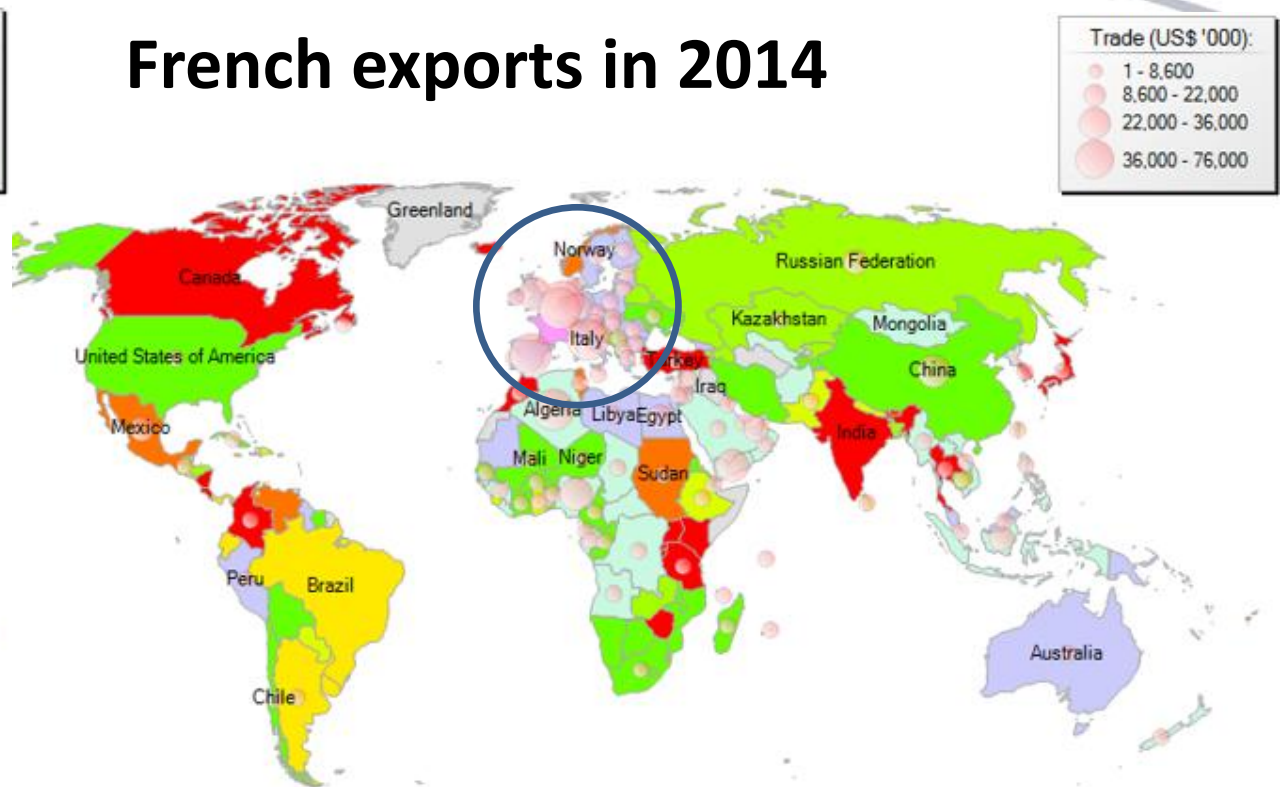


How much tariffs matter: Example of SMP

NZ Exports in 2014



French exports in 2014

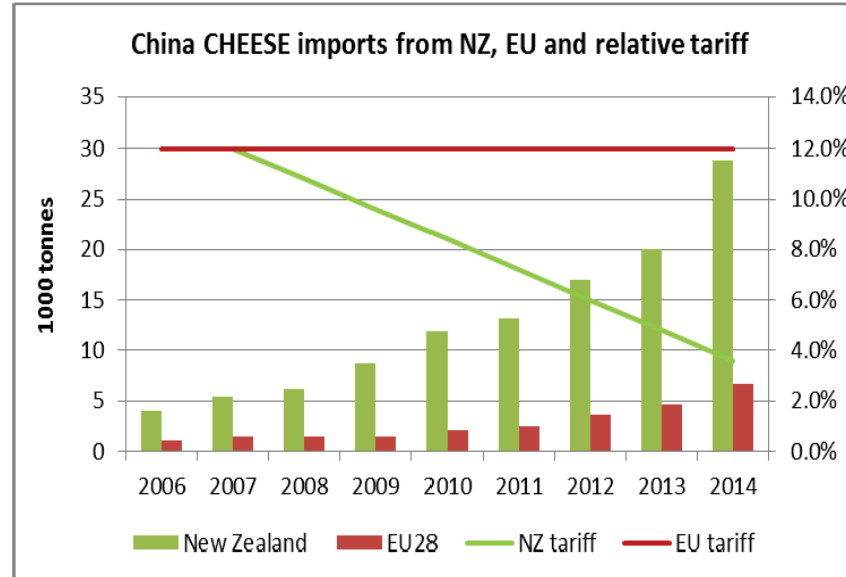
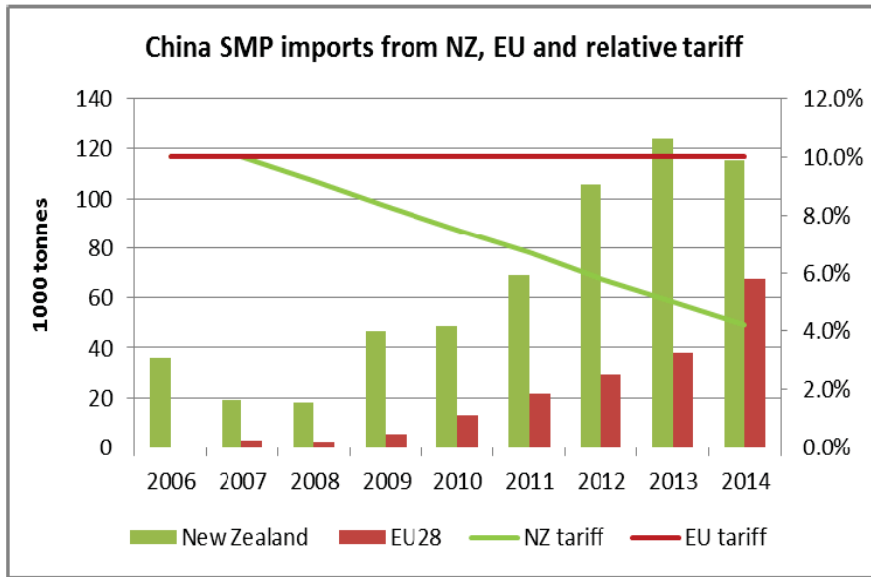


Source: GEB-Institut de l'Élevage according to TradeMap

- ❖ Mostly similar tariffs applied for SMP from France and NZ, with the exceptions of :
 - ✓ EU member states = duty free for French SMP
 - ✓ China as a consequence of a China/NZ FTA signed in 2008
- ❖ Higher trade from NZ to South Est Asia despite similar tariffs (except China)
- ❖ Higher trade from France to Africa

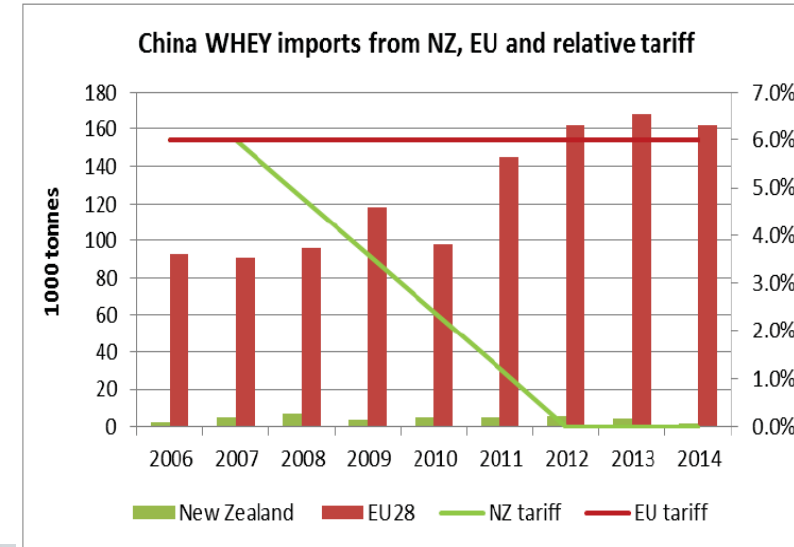
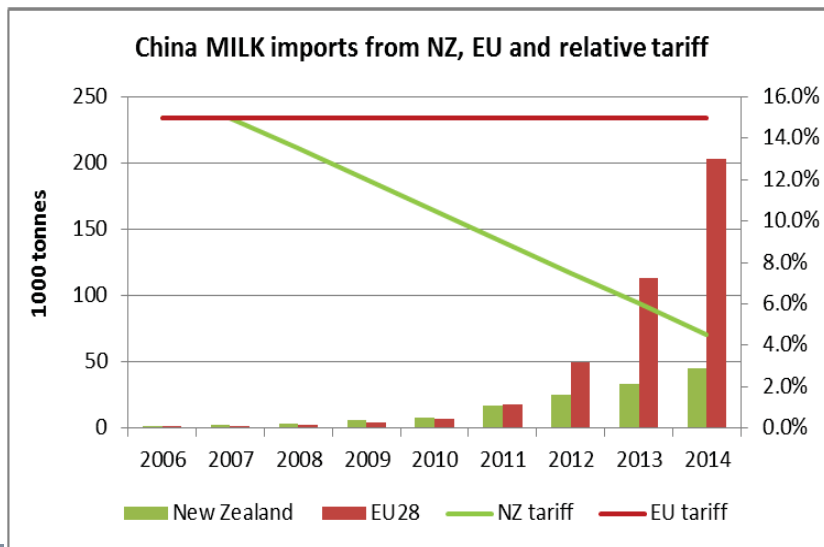
The impact of FTA (China-NZ from 2007) on competition

Quite different from a product to another



Influence of many other factors as:

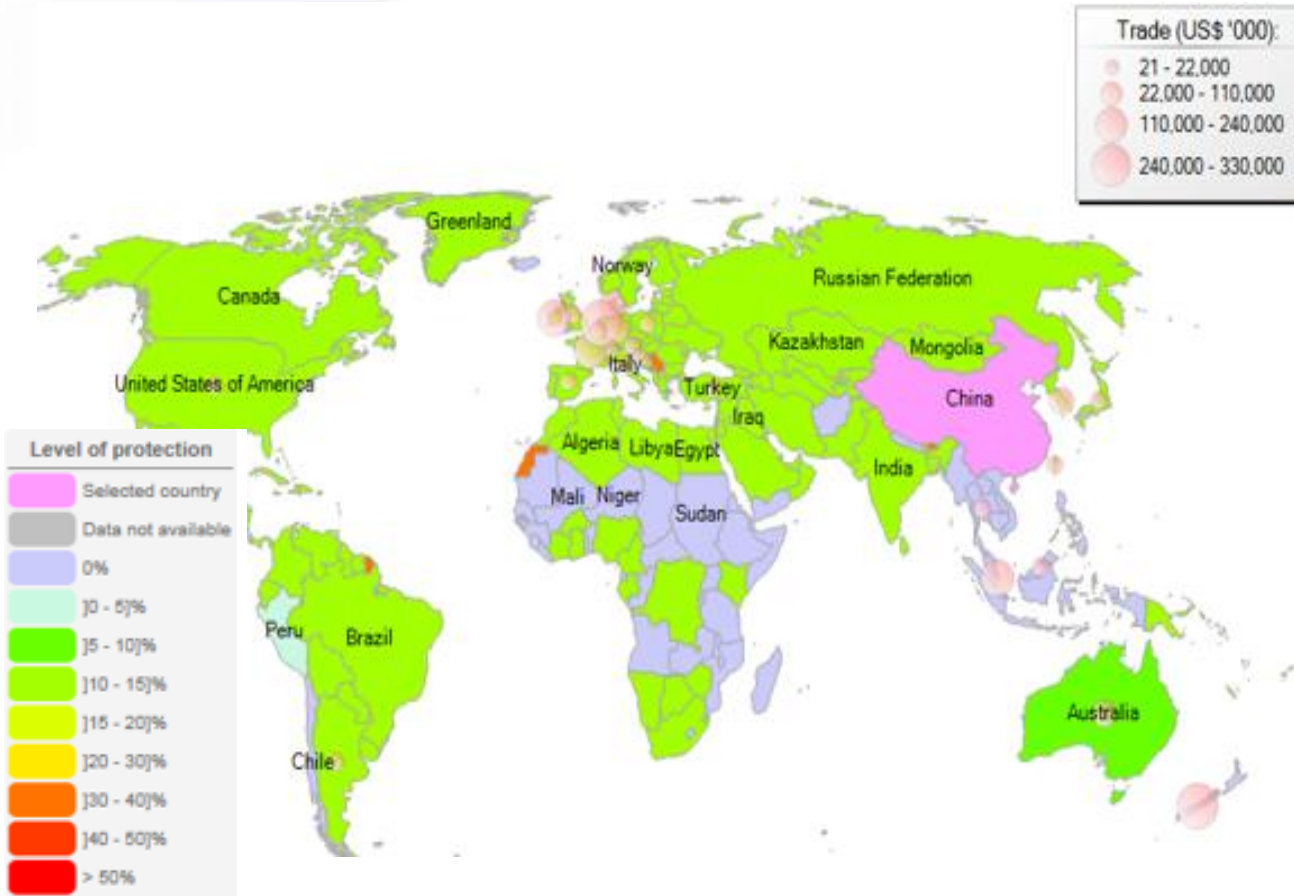
- Specialisation (Hard cheese -> whey)
- Logistic
- Market dynamics...



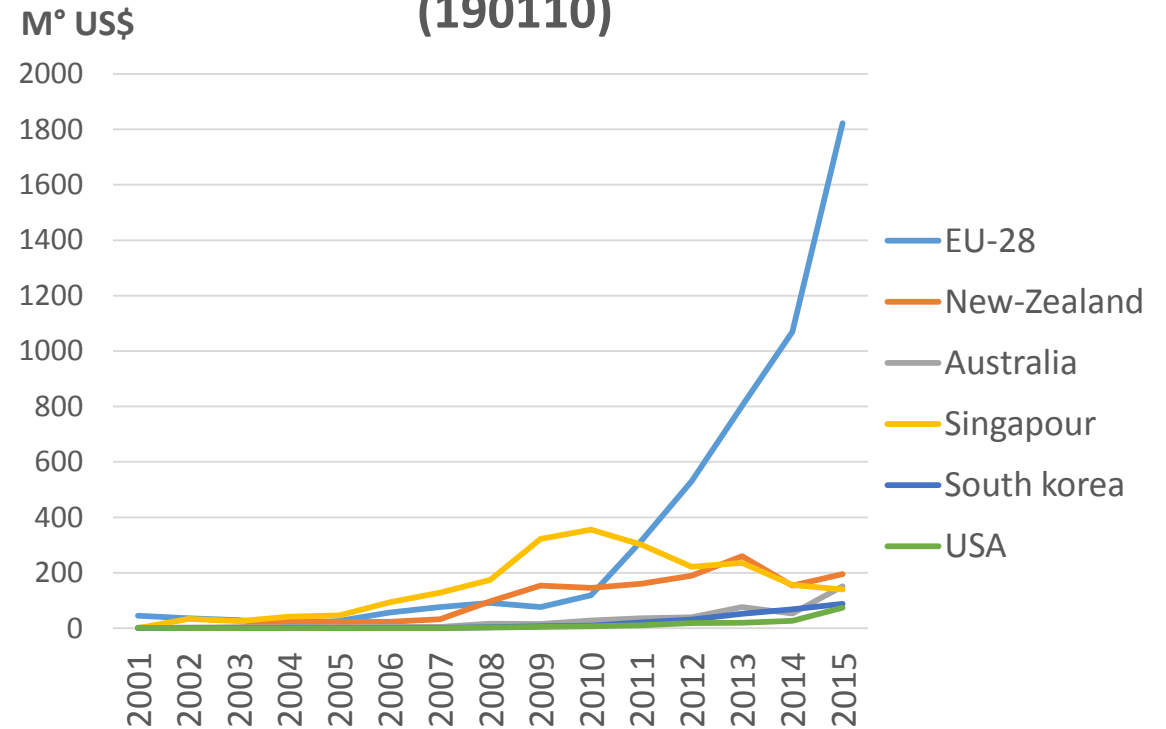
Source:
DG Agriculture and Rural Development
Analysis of trade and international policies

Ex of Chinese imports of Infant Formula

Despite higher tariffs for EU products in China compared with NZ ones, only EU imports have increased its exports for 6 years

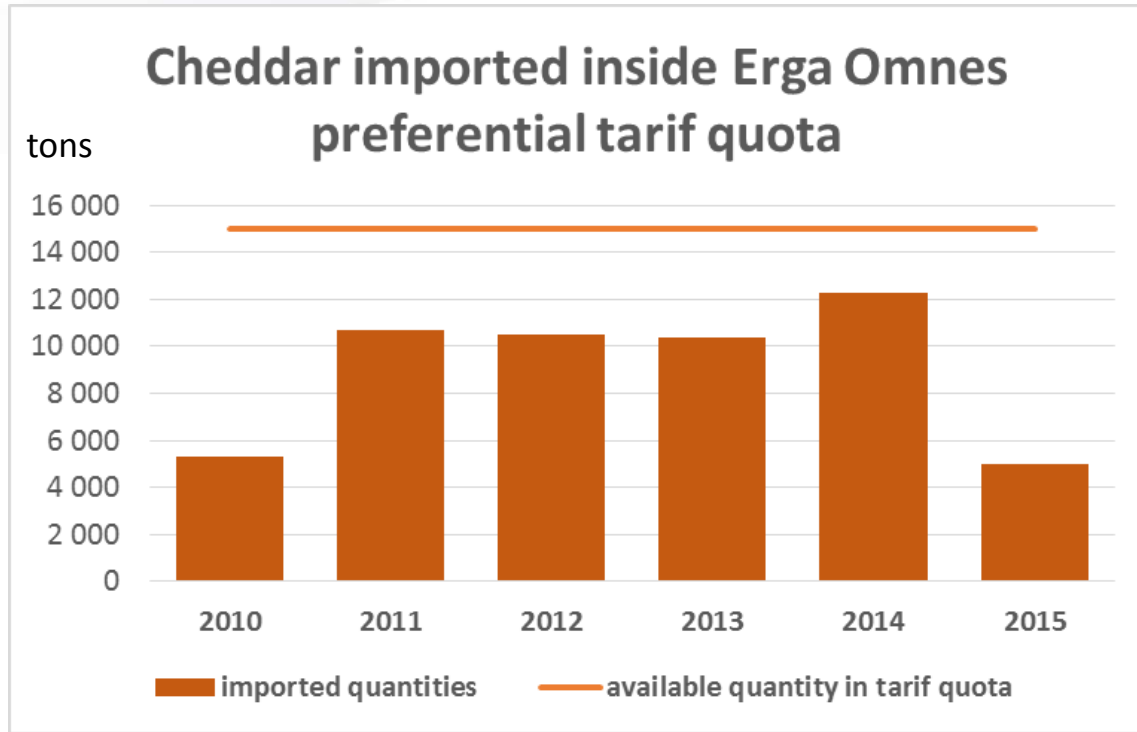


Chinese imports of infant formulas (190110)

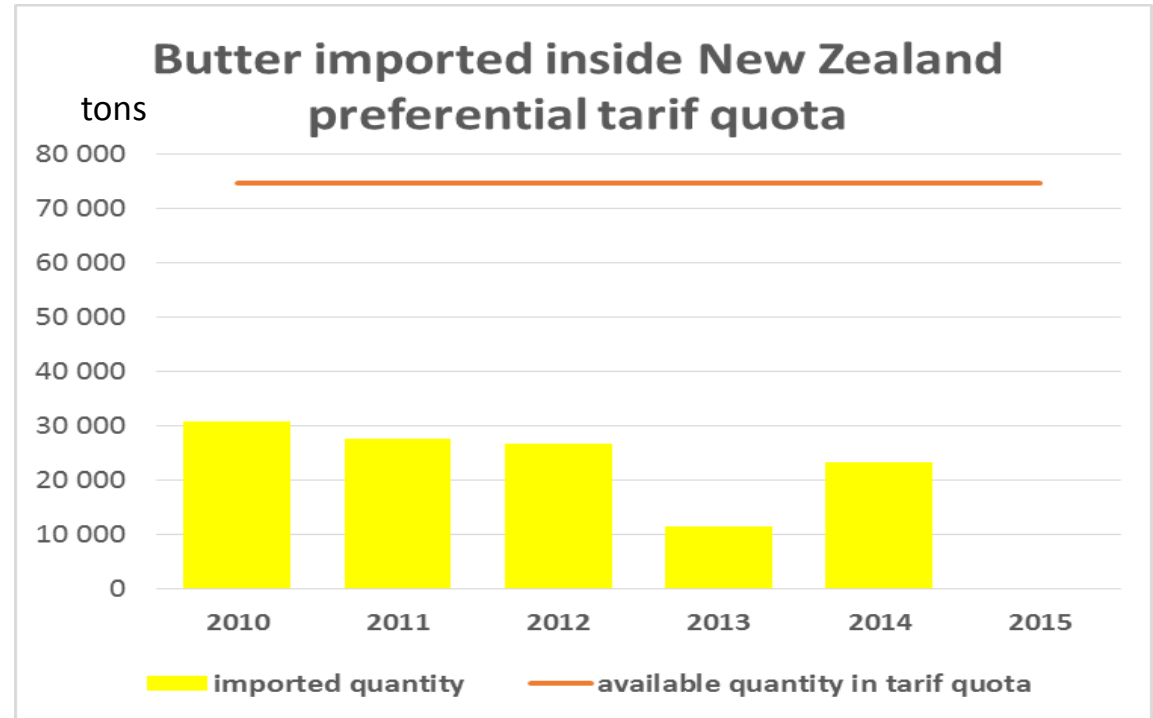


Source: GEB-Institut de l'Élevage according to TradeMap

EU import demand and tariff rate quotas



Tariff in quota: 21 €/100 kg net
MFN: 167,10 €/100 kg net

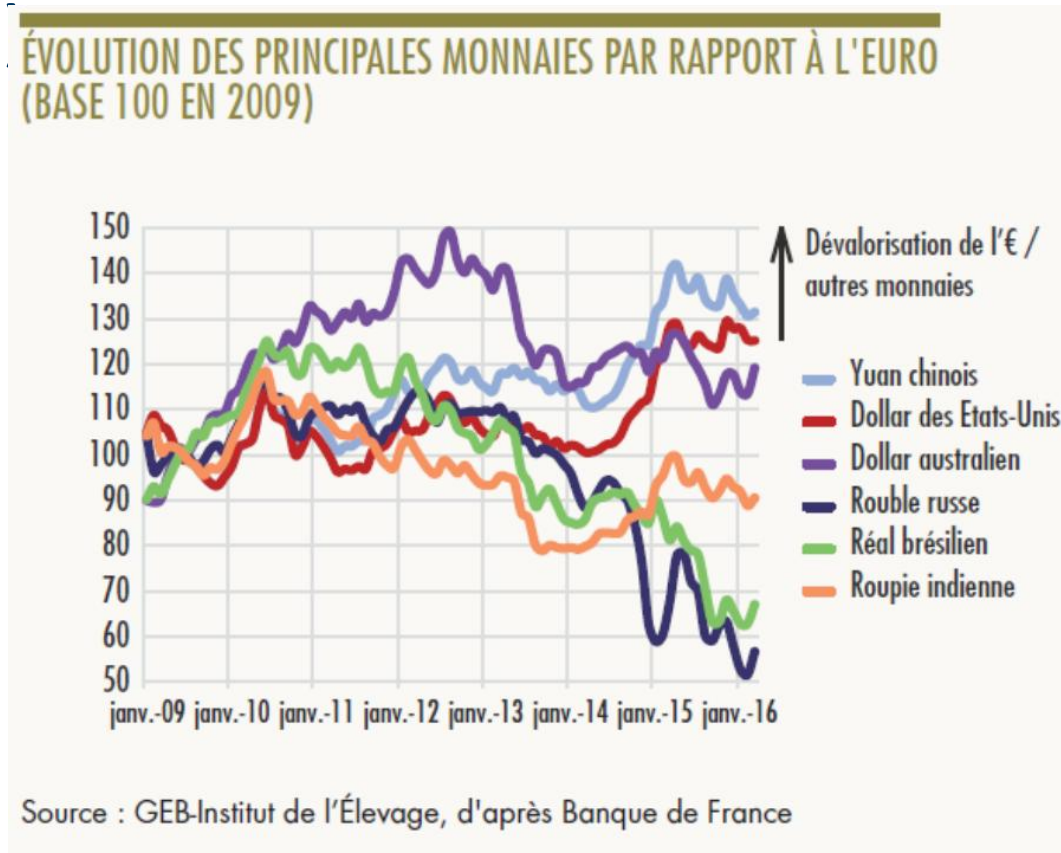


Tariff in quota: 70 €/100 kg net
MFN: 189,60 €/100 kg net

The 2 most important EU tariff rate quotas are far from being filled, notably for butter

Conclusion about tariffs...

- ▶ At a « reasonable » level, tariffs are not the major barrier to trade...
- ▶ ...if transparent & predictable...
- ▶ ...facing other factors as change rates, or all kinds of Non Tariff Barriers as sanitary measures (embargos...



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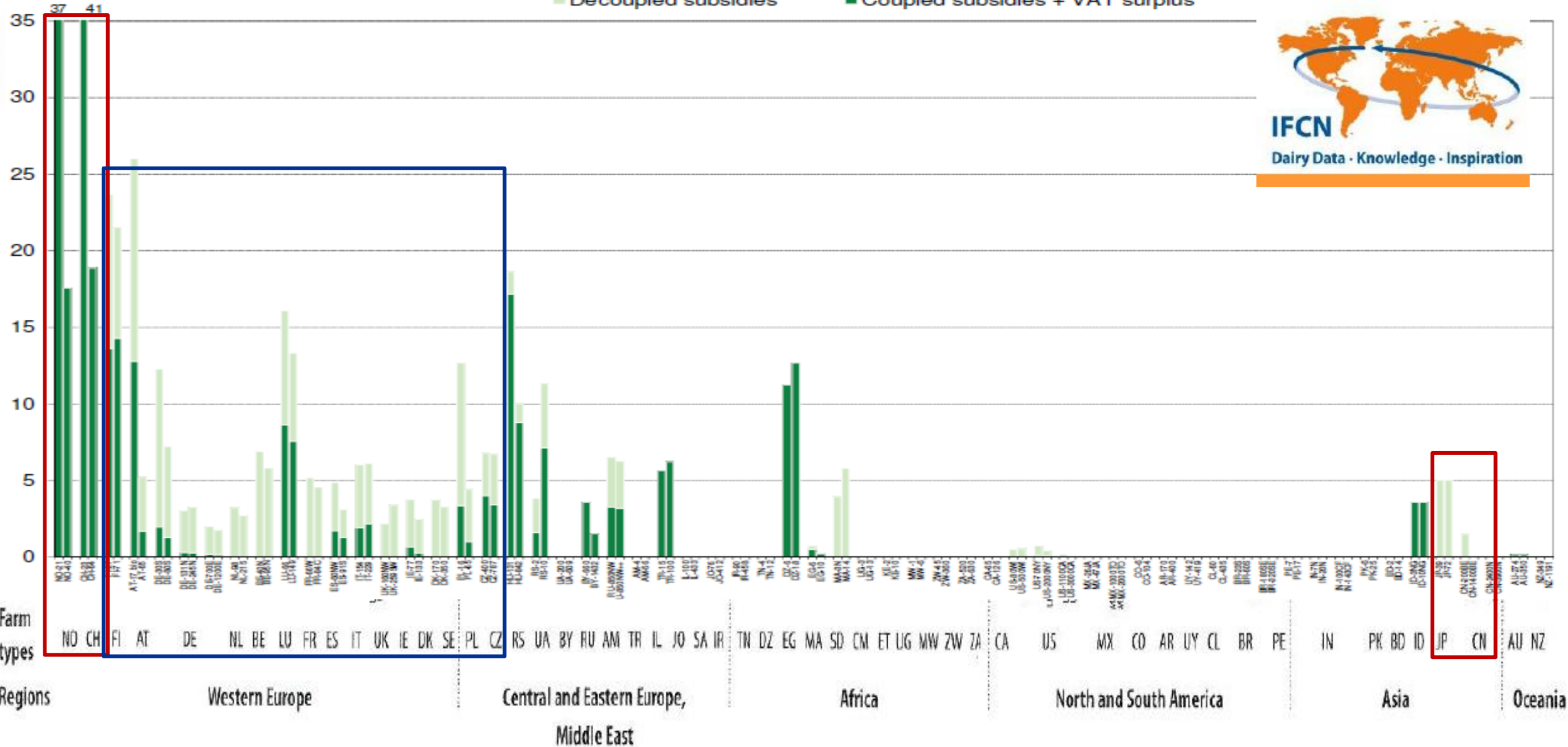
A large range of possible supports for the dairy industry

- ▶ **Direct supports at farm level: Green (ex decoupled)/Blue (coupled, but ceiling) /Orange boxes at the WTO level.**
Only focus there, but many other kinds...
- ▶ **Sectorial policies: Market measures as tariffs, but also storage, credit exports... Support for promotion campaigns in the country or abroad... Support for specific investments along the industry chain...**
- ▶ **Global policies: Public investments in logistic (ports, roads...); training...; research...; opening new markets...**
- ▶ **Global policies at the consumer level: subsidies to help the people to « buy local »; sometime maximum retail price or export tax (ex: ARG)**

Direct subsidies
USD / 100 kg ECM

Level of supports in « typical farms » in 2015

Decoupled subsidies Coupled subsidies + VAT surplus



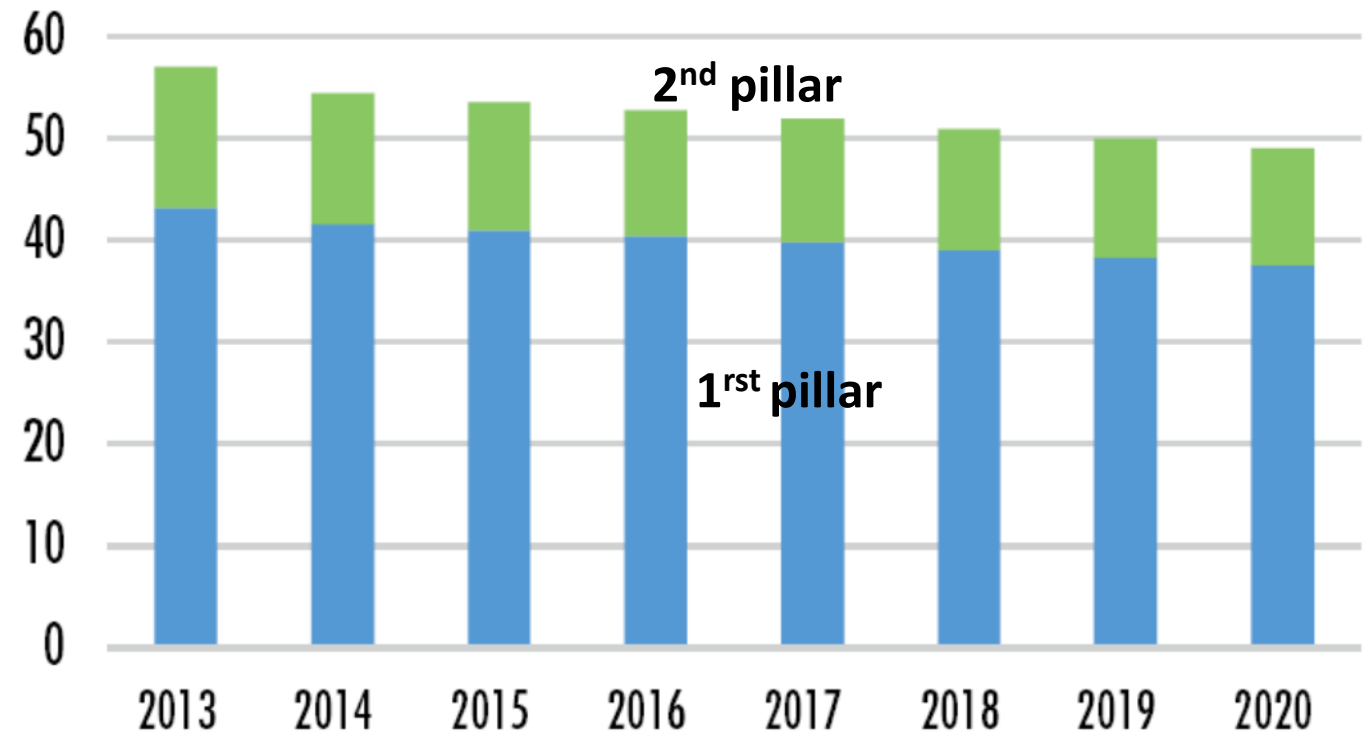
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► Globally, 2020/2013 :
-10% in real €

- Fonds européen agricole pour le développement rural (FEADER)
- Fonds européen agricole de garantie (FEAGA) - dépenses relatives au marché et paiements directs

Milliards d'euros constants



Source : GEB - Institut de l'Élevage d'après DG Agri

Options for CAP supports 2015-2020

1. 1st & 2nd pillar possible transfer
 2. Convergence for decoupled supports: which level ? National or regional ?
 3. Redistributive additional payment for first ha (to support more small and medium farms)
 4. Recoupling (800 M€ in UE)
 5. 2nd pillar priorities
 6. Young Farmers additional support: 1% ou 2% of 1st pillar
- NO OPTION: Greenings for 30% of 1st pillar farm supports**



Liberalism



Dutch & UK model (Scotland not included)

▶ **Full convergence of decoupled supports in 2019
(zoning in UK)**

**=> 380 €/ha in NL ; 244 €/ha in English lowlands (incl.
Green payment)**

▶ **5% support reduction when >150 k€ per farm**

▶ **Transfers from 1st to 2nd pillar**

▶ **Priorities of 2nd pillar :**

Investment/modernization

Meet Environmental & Animal welfare standards



Rhenan model

- ▶ Full convergence of decoupled support: 259 €/ha (incl. Green payment)
- ▶ Redistributive payment (50 €/ha for the first 30 and then 30€/ha for the 16 following ha)
- ▶ Still a very ambitious programme for housing modernization & renewable energies (biogaz, solar...)
- ▶ No ceiling for supports/farm, even in the bigger farms in the New Länders.



Creative & offensive

- ▶ In Poland, all possible levers are used.
- ▶ Decoupled supports are homogeneous /ha since the accession to the EU in 2004: 110 €/ha (incl. Green payment)
- ▶ 1st pillar reinforced with 25% of the 2nd!
- ▶ Redistributive payment: +41 €/ha first 30 ha.
- ▶ Coupled support: 70 €/Dairy cow/year from 3 to 30 DC, plus 70€/Young Bull.



Conservative & offensive



« Irish » model, also adopted by Denmark

- ▶ Decoupled payment national convergence limited at 60% in 2019: supports will remain higher for dairy farms (mean 306 €/ha Green payment included in Ireland)
- ▶ Neither redistributive payment nor coupled support, (only for YB in DK)
- ▶ 2nd pillar focussed on modernization, R&D & transfer to farmers (f.e. discussion groups, genomics...).
Special attention to less favoured areas (agro-environmental measures)



Conservative & defensive



Italy, Spain: a lot of heterogeneity among farmers, and difficulty to define « active farmers »

- ▶ No transfert P1/P2
- ▶ Decoupled supports convergence limited to 60% in 2019, and support losses ceiling 30%. In Spain, convergence inside 23 regions, and distinction irrigated/non irrigated areas.
- ▶ NO redistributive payment
- ▶ Important coupled supports:
56 €/DC in lowlands & 96 €/DC in mountainous in Italy
100 €/VL in lowlands et 114 €/ DC in mountainous + Balears in Spain for the 1st 75 Dairy Cows



Priority for ruminant productions

- ▶ **Transfer 3% from 1st to 2nd pillar (LFA payments + modernization)**
- ▶ **Redistributive payment (5% in 2015, 10% in 2016... 20% of 1st pillar in 2019) for the 53 first ha: 50 €/ha in 2016**
- ▶ **Partial national convergence, to 70% in 2019. In 2016, mean payment is 205 €/ha (green payment included), more for dairy farms**
- ▶ **Coupled payments (15% of 1st pillar), f.e.**
35 €/DC for the first 40 in lowlands
72 €/DC for the first 30 in mountainous areas



Simplification/
homogeneization



CAP & Dairy

Commercially offensive



Commercially defensive



Complexity/
Priorization



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EU measures to face the dairy (& other sectors) crisis

Sept.
2015

1st plan: 500 M€

- 420 M€ in the different member states for Dairy & Pork sectors
- 30 M€ reinforcement for dairy product storage
- 30 M€ food aid for refugees

March
2016

Exceptional measures

- Art. 222 CMO – without any €
Possible voluntary collective production regulation
- Intervention ceiling x2

July 2016

2nd plan : 500 M€

- 150 M€ for a specific support for a voluntary & temporary reduction of dairy collection (1,07 Mt via 14 ct/non produced liter from Octobre 2016)
- 350 M€ in the different member states to finance measures to stabilize the markets; possible 100% co-financing by MS
- Prolongation intervention and subsidized private storage to Feb 2017

+ a number of private initiatives either by processors, or SM chains...

- ▶ **Promotion of local products by SM in UK, Italy, Sweden...**
- ▶ **Minimum price for SM brands, ex  CONAD to pay a minimum of 0,38 €/l to farmers**
- ▶ **Different prices for different quantities (« Quota A/B..C » French coops; First Milk, Dairy Crest UK, GMUNDNER AT...)**
- ▶ **Garanty of margin contract since some years in Ireland, for Tesco...**
- ▶ **Renegotiation of loans, notably in countries where the interest rates are high (Ireland... Milk Flex for Glanbia)**



In conclusion, some questions to feed the debate

- ▶ **The current dairy price crisis has been caused by the coinciding EU quota liberalization, slowing demand from China & Russian embargo.**
- ▶ **Tariffs & supports short term real impact ?**
- ▶ **Are international negotiations focussed on the real main problems ?**
- ▶ **Which measures to mitigate the crisis outside the EU ?**



Thanks for your attention!