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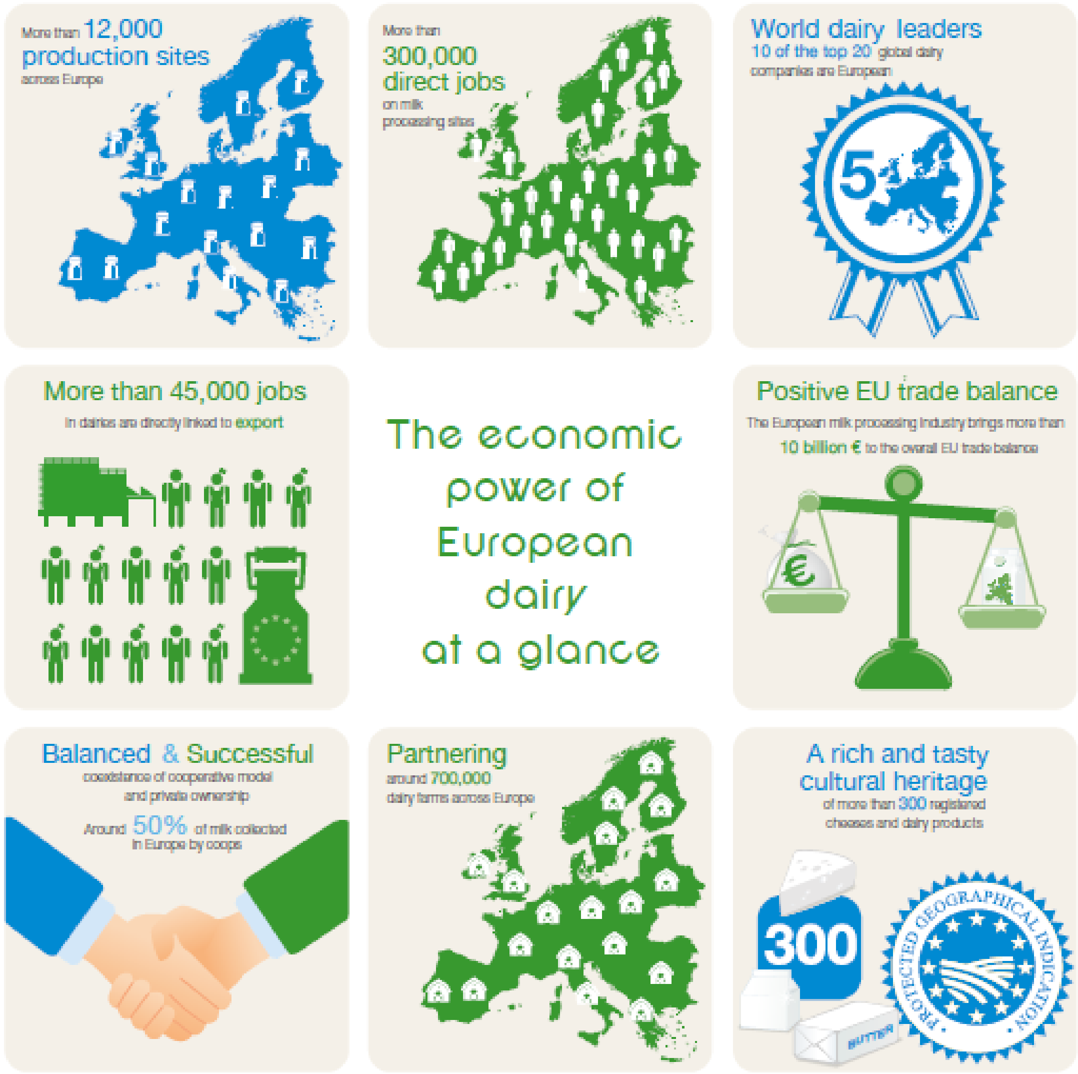
EDA view on COOL for milk and dairy

8 July 2019 | COM Seminar on national COOL

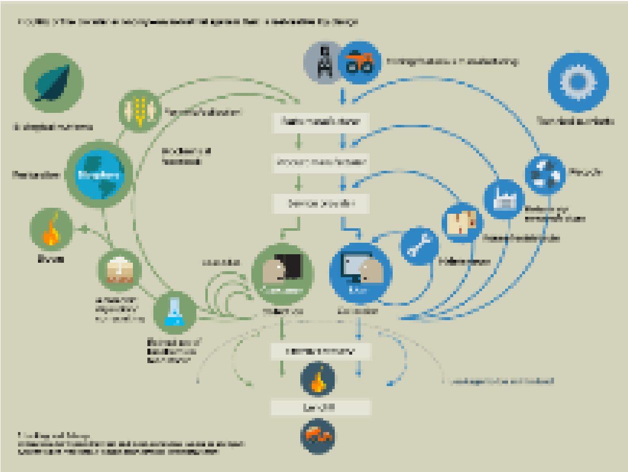
connect to the world of dairy



- ➡ 28 national delegations
- ➡ 21 countries
- ➡ Covering 99% of milk processed in the EU

The dairy view

- The reality of dairy in the EU
- The question of origin indications
- Economics of OL



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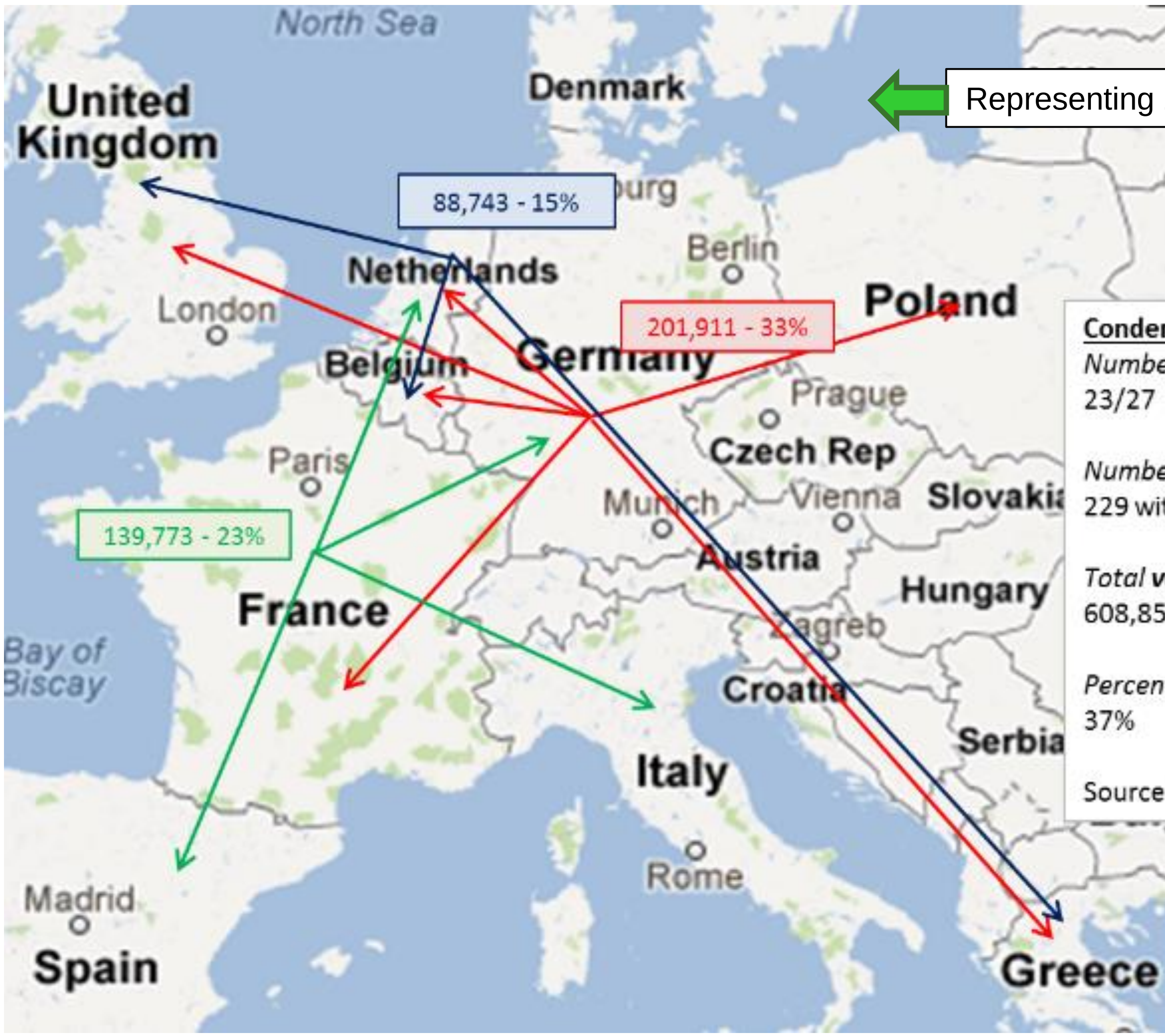
Representing 13 of 229 Permutations



Condensed Milk and Cream

*Number of **exporting** MS:*
23/27

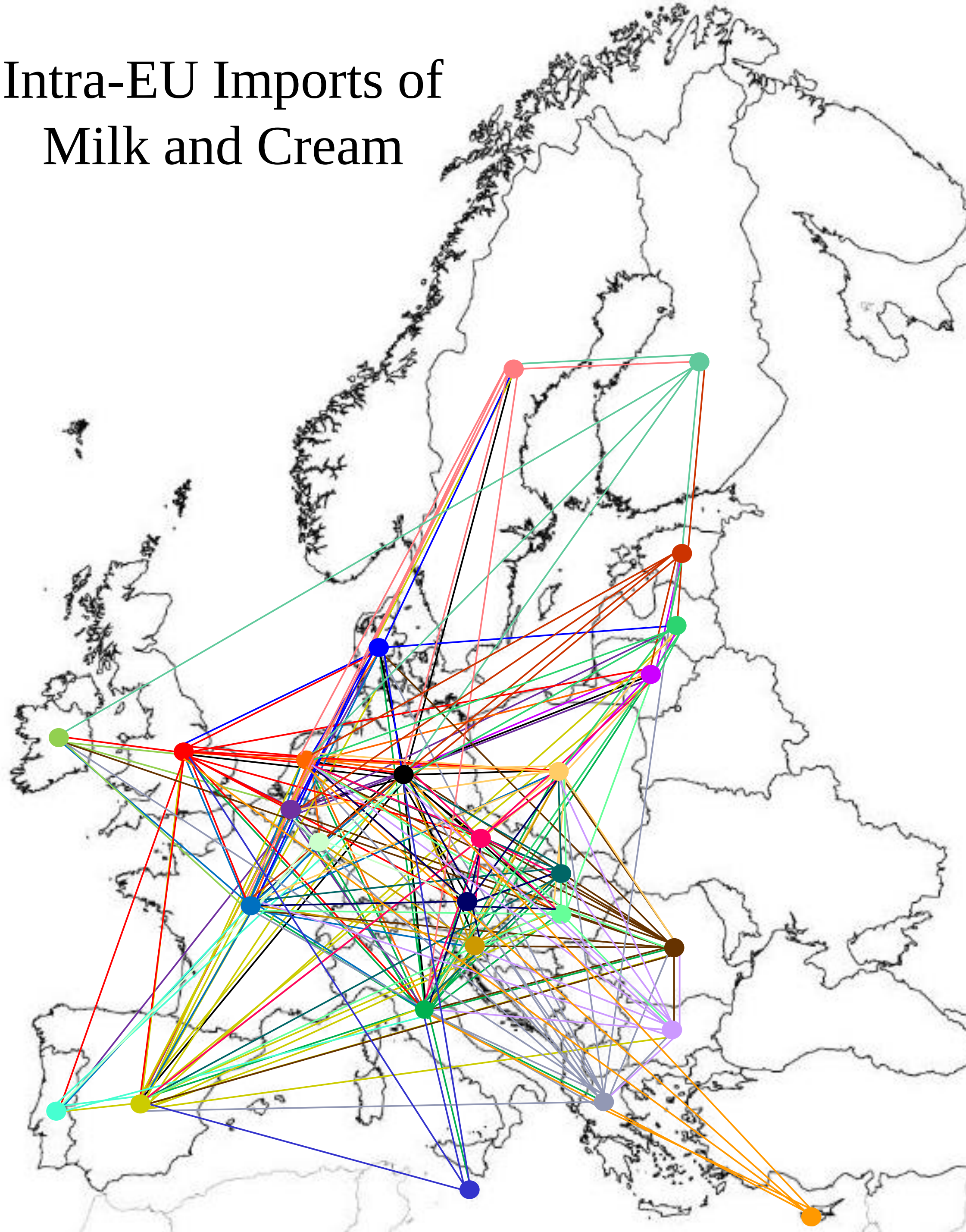
*Number of **permutations**:*
229 within EU 27

*Total **volume** (t):*
608,850

*Percentage **of total production**:*
37%

Source: Eurostat

Intra-EU Imports of Milk and Cream



Possible (mis-)concepts of origin indications

- Food safety
- Environmental
- Support of local economy/ farmers
- others

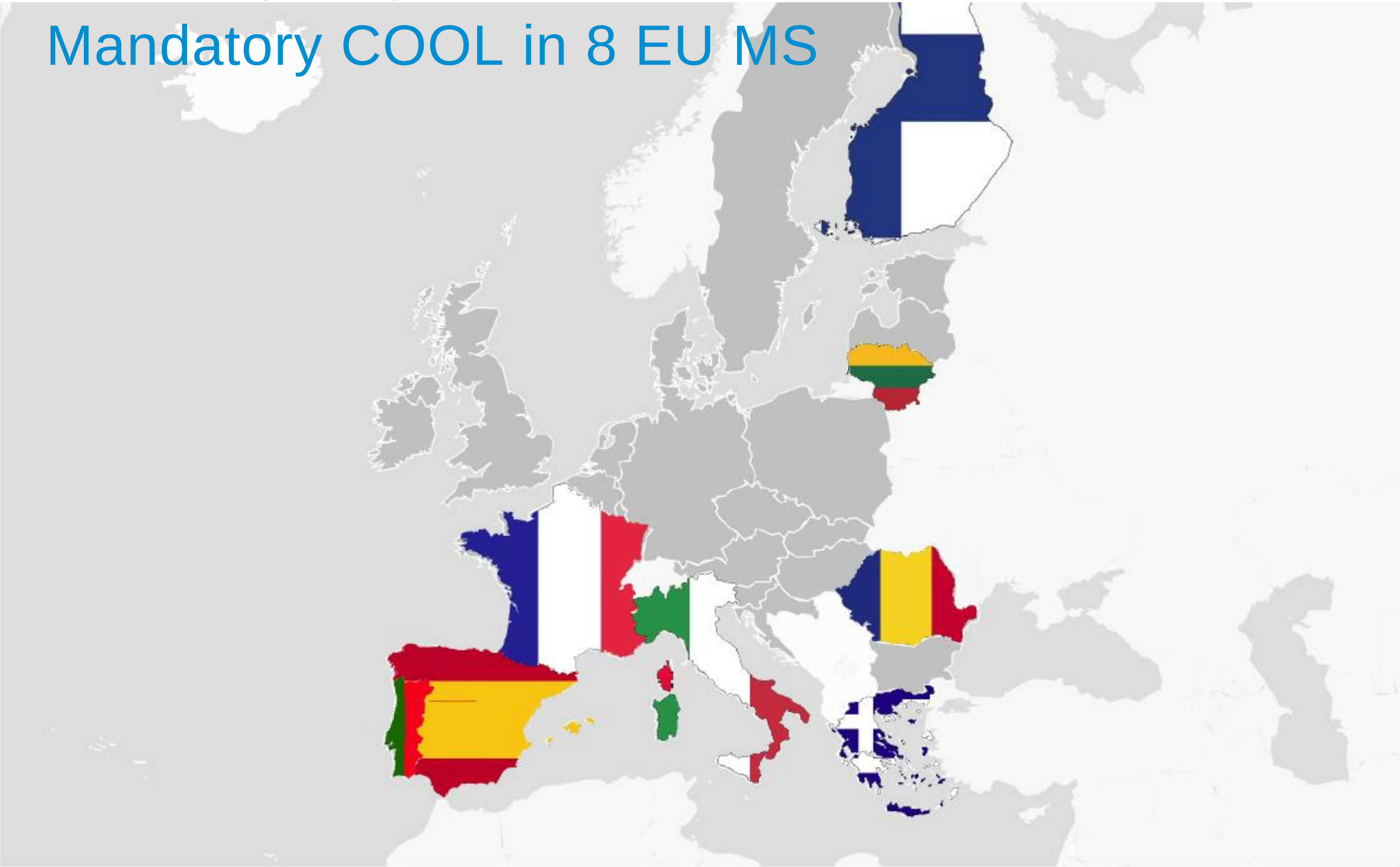
Eurobarometer Food Safety in the EU 2019

Four items are each chosen by around half of respondents, when considering important factors when buying food: where the food comes from (53%), cost (51%), food safety (50%) and taste (49%). A slightly lower proportion say that nutrient content is important (44%), while respondents are least likely to mention ethics and beliefs as an important factor (19%).

QD1T When you buy food, which of the following are the most important to you? Firstly? And then? TOTAL (MAX. 3 ANSWERS)
(% - EU)

The Dairy PEF (Product Environmental Footprint)

Mandatory COOL in 8 EU MS



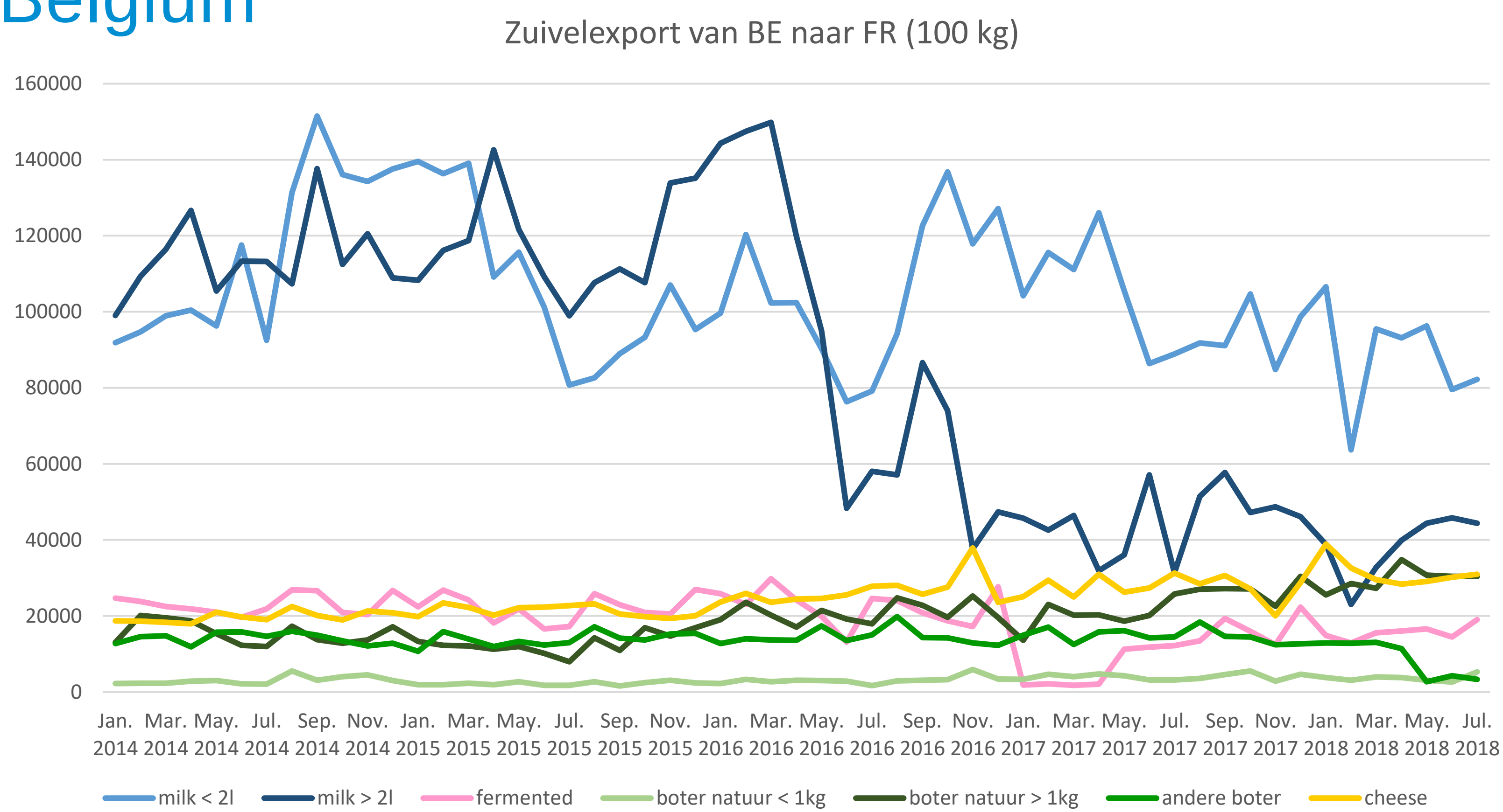
Dairy sector: Belgium

- The Belgian dairy association (BCZ/CBL) circulated a survey among its membership in September 2018.
- Findings confirmed that the Belgian industry experiences a major impact of the French measure:

Effects on Belgian exports to France

- Already in anticipation of the publication of the French decree in August 2016, the French origin is systematically requested by the French distribution.
- Even the most innovative products, or the best-priced products, do not stand a chance as long as they are not made with French milk.
- The French market is completely closed for imports, also for private label products.
- The effect is particularly pertinent for drinking milk, because not only the French origin is asked for the raw material, but also the packaging must have taken place in France.
- The export to France of some Belgian dairy companies that pass-through French distributors has stalled.

Belgium


Zuivelexport van BE naar FR (100 kg)
160000
140000
120000
100000
80000
60000
40000
20000
0
Jan. 2014
Mar. 2014
May. 2014
Jul. 2014
Sep. 2014
Nov. 2014
Jan. 2015
Mar. 2015
May. 2015
Jul. 2015
Sep. 2015
Nov. 2015
Jan. 2016
Mar. 2016
May. 2016
Jul. 2016
Sep. 2016
Nov. 2016
Jan. 2017
Mar. 2017
May. 2017
Jul. 2017
Sep. 2017
Nov. 2017
Jan. 2018
Mar. 2018
May. 2018
Jul. 2018
milk < 2l
milk > 2l
fermented
boter natuur < 1kg
boter natuur > 1kg
andere boter
cheese

Belgium - Difference in competition

- The change in competition takes place in different areas.
- Firstly, the Belgian dairy market no longer has access to certain markets in France, namely the markets for UHT milk and butter.
- Secondly, this situation made it possible for French distributors to increase sales prices.
- These additional funds obtained by French companies did not allow a higher price to be paid to French producers, but French companies use this additional revenue to export to neighbouring markets (Italy, Spain, Belgium) at lower prices (i.e. dumping).
- So the French companies finance their exports by raising the price on the internal market, while companies outside France can no longer deliver.

Belgium - Cancelled or lost contracts

- Several contracts were lost or cancelled.
- This process started already in 2015, due to the French retailers' request for French products.
- Several Belgian companies have millions of litres of UHT milk lost under contract.
- Moreover, the Belgian companies are less asked for tenders from the French distribution companies.

Belgium - Retail pressure

- The French retailers are forcing companies to adapt the labels by requiring origin labelling on products manufactured in other Member States. This is an example that the mutual recognition principle laid down in the French Decree is purely theoretical but does not work in practice.
- Dairy companies observe that since the national rules on mandatory origin labelling have been introduced, there is a preference beginning to emerge for nationally produced products in these countries with labelling at retail level.

Belgium - Loss of business in France and Italy

- Companies observe that exports of their products to France are declining.
- The companies reported they did lose some business recently, e.g. in France, and there is a strong suspicion that the new Decree on mandatory country of origin labelling in France was a factor. The business loss was across butter, curd and protein powders. One company reported problems with cream exported to France.

Belgium - Loss of business in France and Italy

- Similar observations have been done for Italy, where companies also notice some substitution away e.g. from powders to liquid milk.

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Dairy sector: Sweden

- The comparative figures from the dairy sector for the first trimester 2016 and 2017 show that exports to France went down from 3,6 Mkg till 2,6 Mkg, i.e. by 26.8%.
- Even if the absolute numbers are low, it still represents a significant decrease.

Produkt	jan-apr 2016	jan-apr 2017
	ton	ton
Bregott-typ	143.4	223.7
Färskost	0.4	0.7
Grädde tjock, bulk	352.5	275.4
Grädde tunn, bulk	0.0	
Grädde tunn, förpackad		0.1
Hårdost	0.1	0.9
Kondensmjölk	3,046.2	799.2
Kärnmjölk, naturell pulverform	0.3	0.4
Kärnmjölk, naturell, flytande		60.0
Kärnmjölk, smaksatt, flytande		0.0
Kärnmjölk, smaksatt, pulverform	0.0	0.0
Mjölk, bulk		687.4
Mjölk, förpackad	0.0	0.0
Riven ost	0.0	
Skummjölkspulver	3.3	2.1
Smaksatt mjölk	0.1	
Smältost	0.1	0.1
Yoghurt, naturell	0.0	0.0
Yoghurt, smaksatt	0.1	206.7
Övriga vassleprodukter		372.1
Övrigt matfett	44.8	0.1
Summa	3,591.5	2,629.0
Källa: SCB		

Dairy sector: Germany

Deutscher Außenhandel

Quelle: Statistisches Bundesamt

Vergleich Januar bis Oktober 2017 / 2018

Ausfuhr: Flüssige(r) Milch/Rahm (Kleinpackungen)

Angaben in t

Land	2017	2018	Vergleich in %
Europa			
Frankreich	26.652,9	18.688,8	-29,88

Dairy sector: Germany

3	**Deutschland: Exporte von Milchprodukten nach Frankreich**				
4	in Tonnen	2014	2015	2016	2017
5	Milch, lose	7,594	1,160	9,955	22,014
6	Sahne, lose	4,302	3,963	6,305	9,781
7	Milch, abgepackt	57,143	84,280	48,189	25,185
8	Sahne, abgepackt	10,304	13,500	9,361	5,850
9	Butter (80-85%Fett) <1kg	24,687	17,975	17,572	19,212
10	Butter (80-85%Fett) >1kg	23,349	16,688	17,073	17,700
11	0401 bis 0406	297,482	301,948	275,771	272,045
12					

Germany – decrease of exports to France

- The above data show a clear decrease for packed milk and cream (so German added value is considerably destroyed). The increases for milk and cream (non-prepacked) do not represent the same quantities nor former values.
- In France the decrease started already in 2015 because French farmers/retailers were blocking German products/borders.

Germany – evolution of raw milk prices

- In 2016, DE prices were lower than in FR. Nevertheless, exports to FR went down as DE exports were considerably hindered by FR retailers and farmers. German dairies were „obliged“ to fill FR milk in their packs.
- In 2017, DE prices were above FR prices. Exports decreased further (which is logical, but the French decree worsened the situation).
- In 2018, DE prices were again lower than in FR, but exports will remain low because the decree has accomplished facts.

Germany – lost contracts with retailers

- The German dairy sector have lost several listings with retailers and some contracts, there is more pressure due to the origin of the milk.

The Netherlands – consequences of the French decree

- Difficulties in entering French market with Dutch milk and milk products
- French retailers place milk products of non-French origin at the bottom of shelves; while French products are given the best places
- French retailers are reluctant in accepting milk and milk products from outside France
- In order to anticipate the attitude of the French retailers, Dutch dairy companies are forced to look for other market opportunities for the export of their products;

The Netherlands – consequences of the French decree

- We have noticed loss of contracts or contracts not prolonged for goat cheese and goat milk powder to France and export has decreased significantly.
- Also, the contracts included disbanding clauses that would become active at the time when buyers would demand French origin.
- One member has reported that the cost of change for a limited amount of products was €73,000 in 2016-2017.

The Netherlands – consequences of the French decree

- Goats milk and milk products:
- As a result of the decline in exports of goat milk to France, a surplus arose, resulting in pressure on prices and thus lower prices for goat farmers.

National mCOOL – impact for the dairy sector – case studies collected by EDA 2016-2017

Case study 1 – Calculation made by a big company A in country X

- We made a calculation on the cost of complexity in the production site if we should be able to label the precise origin of milk in each carton.
- The investment needed in tank capacity etc. was calculated to be in the range 1 750 000 €
- The daily transaction cost linked to waste and flush between different origins of milk and change of packaging material, extra staff etc. would amount 15 000 000 €/year

Case study 1 – Calculation made by a big company A in country X

- We also made an estimate for a cheese site processing milk from two different member states:
- Investments needed 27 000 000 €
- The daily transaction cost linked to waste and flush between different origins of milk and change of packaging material, extra staff etc., amounts up to 18 000 000 €/year
- Cost per Kg of cheese: 1,88 €
- Reduced flexibility, e.g. the spot market for milk in EU is more complex to manage

Case study 2 – Observations made by a big company B in country Y

- The French retailers are forcing the companies to adapt the labels by requiring origin labelling on products manufactured in other MS.
- This is a violation of the mutual recognition principle laid down in the French Decree.

Case study 2 – Observations made by a big company B in country Y

- ➥Product stream towards France are changing logistics (e.g. cream)
- ➥On a limited scale we can still pay attention to these kinds of requests of retailers as you can assign dedicated production and packaging lines to certain product/retailer combinations.
- ➥But, when more or all products need to be labelled, the discrimination from one milk stream to the other is getting increasingly more difficult and part of the products will eventually be labelled with "milk from EU".

Typical factors of costs for tracking origin for a dairy company:

- Required Additional Assets/Re-Organisation due to origin labelling
- Reception Tanks (100.000L)
- Decentralised Cleaning Systems
- Reception and Clain-In-Place (CIP) pumps
- Separator(s)
- Heating System(s)
- UHT-Systems
- Storage Tank(s) (100.000L)
- Road Tanker(s)
- Additional Packaging
- Additional Packaging-Storage Area
- Additional Pipe-Line-System(s)
- Additional Storage Area for Finished Products
- Additional Product-Analysis
- Increased Amount of Packaging Designs
- Increased Depreciation/Interests/Maintenance and Upkeep
- Adjustment of Reporting system and Monitoring
- Additional Workforce through whole value chain
- Shortened Collecting Routes
- Loss of Efficiency and consecutive Production
- increase of Complexity and referring Costs
- increased assembling and cleaning periods
- increase of product-wastage

(Large) Liquid milk plant - Separation by Member States

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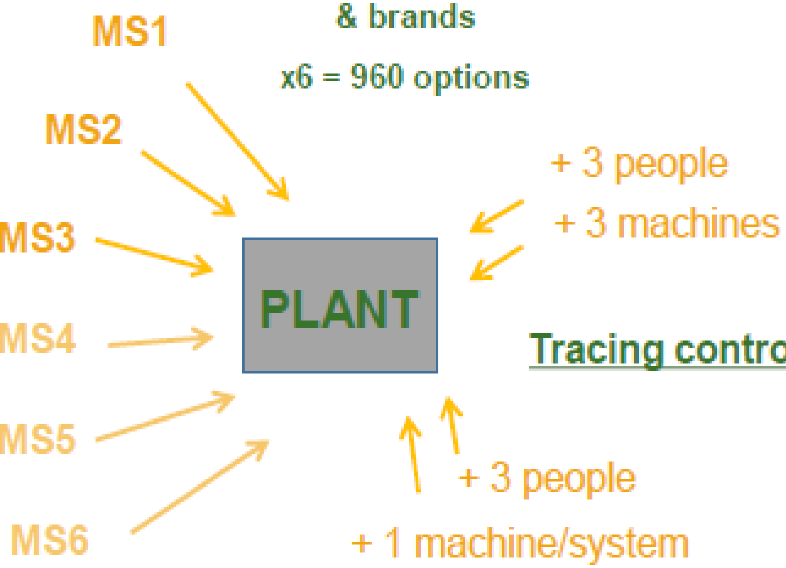
6 origins:

160 labels
& brands
x6 = 960 options



Additional costs:

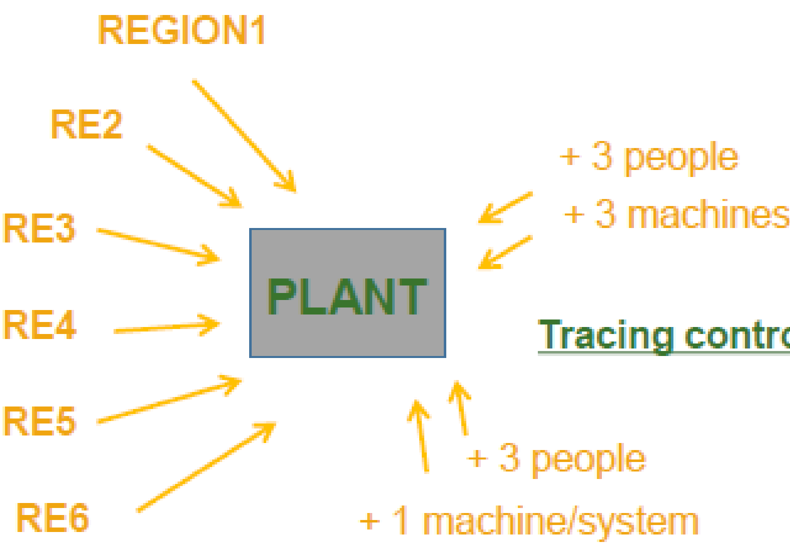
		€/ton
separation of origins	Reduced options for supply	1,00
	Milk collection organisation	1,00
	Separate storage	1,00
	Separate transport	1,00
Tracing controls QM	Tracebility	0,03
	Reprogramming database	0,03
	Central monitoring	0,03
	Official controls	0,00
	If origin requires not met	1,00
	Change of labelling	0,16
other costs	Impact on SMEs	1,00
	Farmer income (by reduced selling options)	5,00
	Asset-Investmenst	1,30
	Incresaed price for consumer	0,015

+ 30%

Total increase of manufacturing cost / ton
(potentially to forward to consumer) -> 6% ~ on final price (if 4/5 are raw material price)

(Large) Liquid milk plant - Separation by regions

6 origins:



Additional costs:

		€/ton
separation of origins	➢ Reduced options for supply	5,00
	➢ Milk collection organisation	5,00
	➢ Separate storage	5,00
	➢ Separate transport	5,00
Tracing controls QM	➢ Traceability	0,05
	➢ Reprogramming database	0,05
	➢ Central monitoring	0,05
	➢ Official controls	0,00
	➢ If origin requires not met	1,00
	➢ Change of labelling	2,50
other costs	➢ Impact on SMEs	7,50
	➢ Farmer income (by reduced selling options)	5,00
	➢ Asset-Investmenst	5,50
	➢ Incresaed price for consumer	0,05

+100%

Total increase of manufacturing cost / ton
(potentially to forward to consumer) -> 20% on final price (if 4/5 are raw material price)
Investment on 4 years depreciation

>45

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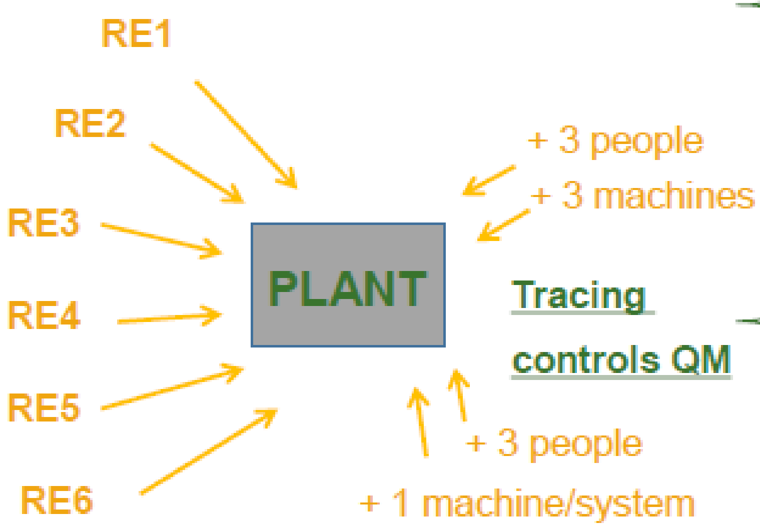
(Large) cheese plant - Separation by MS and regions

Additional costs:

6 origins:



		per ton milk	per kg Final product
separation of origins	➢ Reduced options for supply	1,00 - 5,00	10-50
	➢ Milk collection organisation	1,00 - 5,00	~
	➢ Separate storage	1,00 - 5,00	~
	➢ Separate transport	1,00 - 5,00	~
	➢ Additional storage		40-200
Tracing controls QM	➢ Tracebility	0,025	0,075
	➢ Reprogramming database	0,025	0,25-5
	➢ Central monitoring	~	~
	➢ Official controls	0,00	0,00
	➢ If origin requires not met	0,25	2,5-5
	➢ Change of labelling	0,15	1,5
other costs	➢ Impact on SMEs	1-10	10-100
	➢ Farmer income (by reduced selling options)	5	50
	➢ Asset-Investmenst	1,5-6	12,5-52
	➢ Increased price for consumer	0,012	0,12-0,42
		+50%	**+185%**

Raw milk charge per kg final product around 10 ltrs

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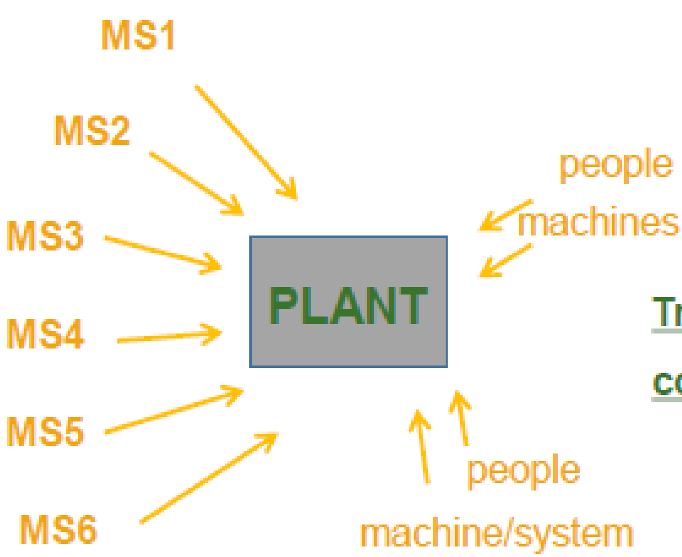
(Medium) UHT Milk plant - Separation by MS

6 origins:



Raw milk charge per kg final product around 10 ltrs

separation of origins

Tracing controls QM

other costs

Additional costs:

Index of costs (original product)	100%
➢ Raw material and process	2,50%
➢ Packaging	0,10%
➢ Manpower	0,15%
➢ Energy	0,18%
➢ Storage (investment)	0,10%
➢ Storage (depreciation)	0,20%
➢ Labelling (investment)	0,10%
➢ Labelling (depreciation)	0,01%
Total cost:	103,34%

Increase: 3,24%

A last angle of view

- Affordability and nutrition for all
- Who pays the price?

Thank you for your attention

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