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France

Dairy and Products

Reportedly Butter Stocks at Dangerous Levels due to 2003 CAP Reform

2005

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Report Highlights:

In the past few months, several surveys have been conducted by the French dairy industry on the impact of the 2003 CAP reform. The results of a study by the French dairy board (ONILAIT) reportedly have concluded that European butter stocks could dangerously pile up to 700,000 MT level by 2010; as a result of reduced intervention prices, termination of the EU pastry and ice-cream scheme, as well as the termination of EU export restitutions.

Includes PSD Changes: No
Includes Trade Matrix: No
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Key-elements of the EU 2003 CAP Reforms in the dairy sector are the following:

- production quotas will be maintained stable until 2014/2015,
- intervention prices for butter will decline by 25% in four years,
- intervention prices for non-fat dry milk will decline by 15% in three years,
- direct payments to dairy farmers proportional to their individual quotas were introduced in 2004 to partially compensate for price reduction, and will be completely decoupled in 2006,
- production quotas may be increased from 2007, depending on market conditions.

The French dairy board (ONILAIT), the French Breeding Institute (Institut de l'Elevage) and the French Center for Information on the Dairy Economy (CNIEL) recently released surveys predicting potentially negative impacts of the 2003 CAP Reforms on French and EU dairy sectors.

A first survey analyzed the impact of the decline in producer prices for milk on a number of dairy farmers. There are currently 106,000 dairy farmers in France. The survey concluded that a 10% to 20% decline in producer prices for milk would reduce the number of French dairy farmers to between 61,000 - 75,000 farmers by 2012. Farmers maintaining their dairy activities are expected to be the most economically viable, specializing in dairy rather than with diversified production, and located in regions of France traditionally specializing in dairy production (mainly western regions and mountains). The remaining farmers are expected to produce milk with quantities ranging annually from 23.37 million MT to 23.79 million MT of milk. The expected quantities would be higher than 23.16 million MT produced in 2003.

A second survey conducted by ONILAIT analyzed the impact of the 2003 CAP Reform on the European butter market. The survey identified the following factors that would have an impact on the European butter market:

- 25% decline in butter intervention prices by 2008,
- likely termination of the EU pastry and ice-cream scheme (under which butter used for this industry is subsidized),
- reduction of intervention stocks for butter to 30,000 MT by 2008 (2005 beginning stocks are currently at 200,000 MT),
- expected reduction of market prices for butter if production surpluses are higher than intervention stocks limits.
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In addition, the ONILAIT survey predicted the termination of EU export restitutions because of WTO agreements, and pointed out that butter exports have been highly dependent on restitutions in the past. ONILAIT also specified that EU import duties are expected to be reduced under the WTO agreements, as they are currently relatively high.

Consequently, and due to the long-term declining trend for EU domestic consumption for butter, ONILAIT fears that EU butter stocks would accumulate from 200,000 MT in 2004 to 700,000 MT in 2010. ONILAIT believes that the only way to keep butter stocks at a significantly lower level would be to increase domestic consumption.