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## EU-27

### Dairy and Products

### European Commission Simplifies Milk Regime

### 2007

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**Report Highlights:**

The EC approved a so-called "mini-package" of amendments to various dairy market regulations. The changes mainly include harmonization of definitions for dairy products between EU member states, mainly for butter and drinking milk. The amendment also adopts Codex Alimentarius standards for protein content for Skimmed Milk Powder (SMP). This dairy "mini-package" is expected to somewhat decrease butter surplus on the EU market and consequently lead to decreased EU budgetary spending on dairy. It is however too early to make any speculation on the ultimate impact on EU dairy PSD's.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Brussels USEU [BE2]  
[E4]

## Dairy “mini-package” approved

Building on positive developments in the EU dairy product market balances, which result from recent CAP reforms, the European Commission (EC) on February 15 has adopted a so-called “[mini-package](#)” [amendment](#)<sup>1</sup> to several dairy regulations.

- An amendment to [Council Directive 2001/114/EC](#)<sup>2</sup> will allow for the standardization of protein content to 34 percent in condensed and dried milk in line with Codex Alimentarius Committee standards.
- An amendment to [Council Regulation \(EC\) No 1255/1999](#)<sup>3</sup> contains several changes to the dairy market management systems:
  - Implementation of the above protein standardization into the market management regimes requires a 2.8 percent decrease in Skimmed Milk Powder (SMP) intervention price to accommodate for the change in protein standard from the present 35.6 percent to 34 percent.
  - Removal of the butter intervention trigger mechanism will decrease the administrative burden of operating butter intervention. Member states (MS) can simply buy butter in intervention at 90 percent of the butter intervention price from March 1 on until the Community intervention ceiling is reached.
  - “National quality classes” for butter are abolished and replaced by a Community standard for butter. This simplifies the calculation of export refund levels or any other disposal aid calculation.
  - The Private Storage tool for SMP and cream is being removed as these had become obsolete.
  - Disposal aid for butter purchases by military forces is abolished.
  - Aid rates for school milk are being harmonized disregarding of the fat content.
  - The compulsory use of import and export licenses for trade in dairy products listed under Article 1 of Council Regulation (EC) No 1255/1999 is abandoned as DG TAXUD’s electronic trade monitoring system can follow the fill of quota more efficiently.
- An amendment to [Council Regulation \(EC\) No 2597/97](#)<sup>4</sup> removes the restricted definitions for drinking milk into three categories. The large number of derogations as a result of enlargement agreements had made this categorization meaningless. In the future, drinking milk can have any fat content as long as it is clearly labeled.

## Consequences of this dairy regime modification

The amendments in this proposal, which is expected to be approved by the Ag Council in June without further changes because of its technical nature, will have consequences for the financial aspects of the dairy regime and on the EU market balances for milk fats and proteins. The standardization in protein content for preserved milk and the accompanying 2.8 percent decrease in SMP intervention price are expected to result in a milk protein surplus compared to the old situation. This standardization has been a decades long request by EU dairy industry because it put them at a disadvantage on the world market for SMP. The EC had however always refused to consider this because of the additional cost to the EU budget from increased SMP intervention or larger export refund bills for SMP. While some increase in SMP production is anticipated, it is expected that most of this surplus will be used

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<sup>1</sup> [http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007\\_0058en01.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0058en01.pdf)

<sup>2</sup> [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l\\_015/l\\_01520020117en00190023.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2002/l_015/l_01520020117en00190023.pdf)

<sup>3</sup> [http://eur-lex.europa.eu/LexUriServ/site/en/oj/1999/l\\_160/l\\_16019990626en00480072.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/1999/l_160/l_16019990626en00480072.pdf)

<sup>4</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997R2597:EN:HTML>

for expansion of cheese and fresh dairy production. As a result, more milk fat should be incorporated and less processed into butter. This would lessen the butter surplus on the EU dairy market. Because less butter should be exported using export refunds, this amendment is expected to decrease budgetary spending on butter as a consequence.

The other amendments are not expected to have any budgetary impact. The simplification of the butter intervention rules mainly decreases the administrative burden on MS paying agencies to operate butter intervention. The harmonization of butter quality standards between MS will enhance butter trade, not only because differences in butter quality will decrease, but mainly because until now butter intervention price did not reflect different butter quality levels. Scrapping of the obsolete private storage for SMP and cream is budget neutral, although EU industry opposes this abolition of yet another market management tool. The financial envelope for aid for school milk is unchanged. The link between aids for school milk and fat content had been criticized by dietitians. The liberation of the drinking milk regulation also is not expected to induce a change in the speed with which consumers shift towards consumption of lower fat drinking milk.

The EC has calculated that this proposal should decrease estimated expenditure on dairy by €16.1 million in 2007 and by €22.4 million in 2009. Because European SMP intervention stocks are empty and no further aid for SMP disposal is available, these savings are mostly expected from a decrease in support for EU butter exports. As it is hard to forecast how significant the impact of this amendment on different dairy product processing will be, FAS/USEU will not suggest any changes in EU dairy product PSD's in this report. Changes will be included in the next required dairy report, unless changes are significant to warrant a voluntary EU PSD update.

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RO6022	<a href="#">Dairy Annual</a>	11/03/06
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