EU AGRICULTURE COMMISSIONER PHIL HOGAN MUST FULFIL LEGAL DUTY AND ORDER DAIRY INTERVENTION REVIEW

Introduction

The new 2014 to 2019 CAP retains the intervention system for butter and skimmed milk powder (SMP). However, now it is no longer about buying in product and building up stocks.

Now, the EU Commission tells us, it is about providing a "safety net" which signals to markets a floor level below which dairy and milk prices cannot be allowed fall. **However, that level is currently set very low—too low (see grey frame right).**

The CAP regulation governing the system is the "European Parliament and Council Regulation 1308/2013" (1308/2013).

Article 7.2 of this regulation states that the EU Commission has a legal duty to monitor and where necessary adjust intervention prices or "reference thresholds" in light of production costs and market conditions.

The specific text of the article states: ***"The reference thresholds (...) shall be kept under review by the Commission, taking account of objective criteria, notably developments in production, costs of production, (particularly inputs), and market trends. When necessary, the reference thresholds shall be updated in accordance with the ordinary legislative procedure in the light of developments in production and markets"***

EU EP and Council Reg 1308/2013

Article 7.1

Sets out butter and SMP "reference thresholds" (intervention prices) as follows:

Butter : € 2,463.90

SMP: € 1,698.00

This is equivalent to a farm price of approx. **21 c/l**

Or at least 4c/l below current average Irish milk production costs according to Teagasc.

This is no "safety net"!

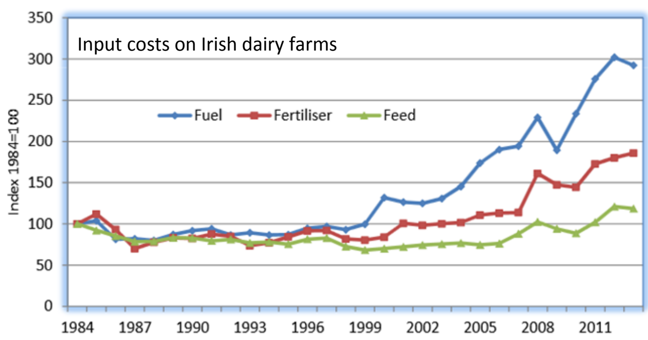
Now that the combined effect of a 28% price cut and long term higher input costs has cut Irish dairy farmers' margins by 78% in the last 13 months, **IFA believes it is high time the EU Commission undertook a review of the intervention prices for SMP and butter.**

Production costs in Ireland (Teagasc)

Irish farm production costs have increased very substantially especially in the last two decades. Fuel costs have trebled since 1984, while fertiliser costs have nearly doubled (see graph top right).

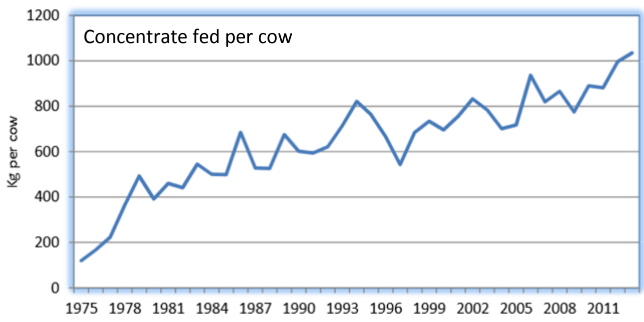
Feed unit costs have increased more modestly, but the quantities of concentrates fed to cows have more than doubled from around 500 kilos in 1984 to over 1 tonne, so that expenditure on feed has increased substantially (see graph bottom right).

Specialist dairy farmers' production costs, as measured by the Teagasc National Farm Survey, have also increased quite substantially, from a total (direct + over-



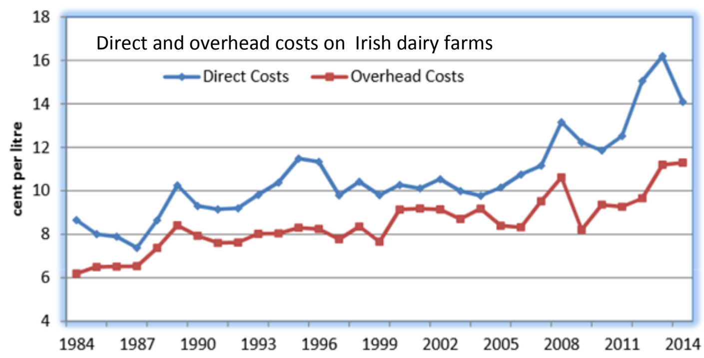
Source: CSO and authors' estimates

Figure 4.18: Concentrate Feed per Cow 1975 to 2014



Source: Adapted from DAFM and CSO data

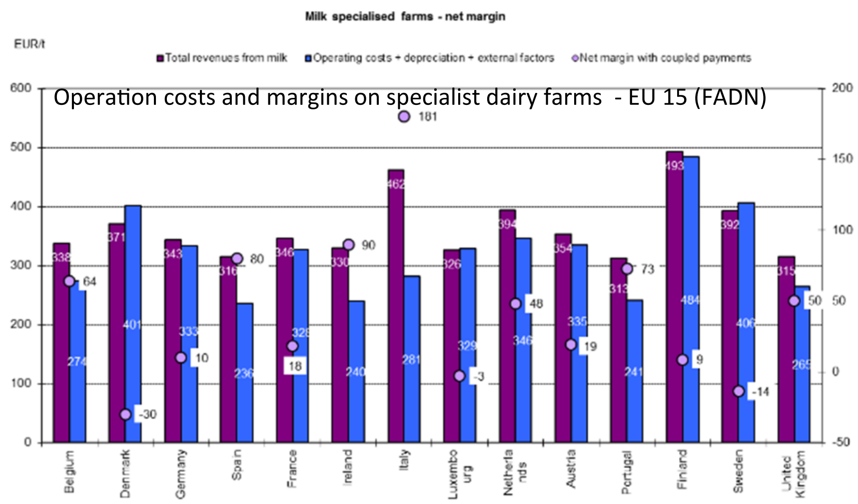
head) of around 15 cents per litre in 1984, to 25.5 cents per litre in 2014, and are forecast to change little in 2015. (See graph top right). It should be noted that the methodology of calculation used by Teagasc to assess direct and indirect costs does not include provision for the remuneration of the farmer's own labour.



Source: Teagasc National Farm Survey (various years), 2014 authors' estimates

International analysts (Rabobank, OECD/FAO, EU Commission) have all in recent years highlighted the fact that extra exportable milk to satisfy the growing international demand for dairy products would become costlier to produce.

The graph to the right sets out "operating costs" – i.e. direct and indirect costs, for specialist milk producing farms in the EU 15 member states, among which the most important milk production regions in Europe. The data the graph is based on is 2013 data – which may well overstate slightly Ireland's costs, due to the significant added expenditure on feed incurred during the fodder crisis in the spring of that year.



Even allowing for this, the graph clearly shows that Ireland at €240/tonne (or 24c/kg of milk), is among the lowest cost producing regions.

Current "reference thresholds" inadequate to provide a realistic safety net

We have shown that, at a current average production cost of just over **25c/l,** Ireland is among the most efficient milk regions of Europe. Yet, if market prices for butter and SMP were to fall to the current "reference thresholds" provided in Reg 1308/2013, the equivalent return, net of processing cost, would at best be **21c/l**.

To provide a genuine safety net, it is essential that the "reference thresholds" or intervention prices, would allow farmers to cover a substantial portion of their direct + overhead basic production costs—at least 25c/l.

Conclusion: Commissioner Hogan must order a review of the "reference thresholds"

In seeking this review, legally mandated by the EU CAP legislation on the Commission, IFA is not arguing for a return to large-scale intervention buying. This review would be unlikely to conclude that prices should rise above production costs, and therefore would not make intervention attractive as an alternative to commercial markets. Our position is supported by both EU farm organisation COPA and the European Parliament.

Since we last had intervention stocks, world trade has increased manifold, and institutional stockholding dwindled all over the world. However, intervention price levels send a very powerful message to buyers on dairy markets. The mere announcement of a review would flag clearly current levels as too low, and could encourage buyers to re-engage with active buying earlier, kick-starting sooner a pick up in market activity and ultimately prices. The main value of such a reviewing mechanism is for the long term, however.

The intervention "safety net", to be fit for purpose, must be set reasonably close to farmer break-even and regularly re-examined and adjusted. This will not make it an "alternative market".