The influence of the European institutions and policies on the European Dairy Sector

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- **This essays in particular illustrates the effects of the Common Agricultural Policy (CAP) on the reorganization and competitiveness of European diary sector. The CAP progressively reduced tariffs on trade of agri-food products among EEC and at the same time strictly regulated the competition between EEC and extra-EU firms. The enlargement of agri-food trade enhanced foreign competition for all European dairy products: moreover, it strongly influenced the production and the price of the milk**
- **It puts in evidence that the European Parliament and Commission progressively modified all the phases of the productive systems of dairy products in order to guarantee the health of the consumers and the correct competition between producers. To achieve this goal, a normative framework oriented to the increase of information among the operators of the dairy chain and among consumers was progressively established: so these latter were able to know all ingredients of the products and to have information about the supply chain**
- **It indicates that the European Investment Bank (EIB), helped the European dairy sector (moreover the Italian one) by: a) loans for the modernization of existing infrastructures (as new electric railways and new free-ways) which allowed to quickly carry the dairy products in the new European market; b) loans for the renovation of some dairy firms (in particular in the Southern Italy).**

- **For the dairy sector the PAC introduced the reduction of the tariff protections between the six and this obviously enhanced competition in the EEC market of the dairy products. At the same time, the policy interventions based on "coupled support" offered the safeguard of productions through price protection, that is, the price normally adequate and profitable for all producers.**
- **Such measures allowed European farmers to realize a safe economic income, to invest in increasing productivity, to align their incomes with those of other sectors, to stabilize prices, and to augment European agricultural exports.**
- **However, such rules also brought some market distortions, which were mainly linked to the creation of product surplus and an increase in costs for their disposal.**
- **Regulation 13/64 established different prices for milk, ranging from a minimum to a maximum price. So, not all the European countries had the same price, even if the objective of the European intervention was to progressively align different product prices within all European countries.**
- **However, only in the 1970 the European dairy market was fully free from the abrogation of the last protections guaranteed for the German and Italian products**

- **Regulation 804/68 introduced three different prices: indicative price, entry price and intervention price.**
- **The first was considered the "equilibrium price" (the price at which the market should aim).**
- **The second was the minimum price for milk imported from non-European countries. It was a real "threshold price" and it was always higher than the market price of European milk.**
- **The third price concerned the price that the CAP guaranteed for all EEC producers. More precisely, it referred to milk powder, butter, and two of the most important Italian cheeses, that is, Parmigiano-Reggiano and Grana Padano.**
- **Thus the CAP aimed at protecting EEC milk producers, and also the main and profitable products of the dairy sector.**

- **Thanks to European subsides (such as price intervention, or the minimum price granted by the CAP), milk producers' earnings were in fact related to production and not to the real price existing on the market or paid by dairy factories.**
- **About the prices it is important to note that their reduction was indicated by some producers, while dairy industries using milk as raw material underlined that prices were too many higher. This discussion has been remained unchanged until the new Millennium and the real problem is probably represented by the costs for the supply (transport and intermediaries) that milk producers and industries have to pay.**
- **During the 1960s, European incentives and subsidies and the new rules about milk safety favoured the exit of less efficient breeding farms from the market. Such structural reorganization brought a temporary reduction in the numbers of cows and, at the same time, implied a renovation of farms and an improvement in milk quality. Such phenomena led also to a new generation of breeders, who invested in new, modern plants and equipment: besides, breeders bought cows producing more milk.**

- **The European institutions also influenced the institutional context in which the dairy firms operated: e.g. they obliged the Italian government to remove the existing monopoly in favour of the "municipalizzate", that is, those dairy factories belonging to municipalities. Such firms, which were also called 'Centrali del latte', collected the milk for healing, packaging and supplying it for consumers.**
- **So the new rules increased market competition and they partially reduced the price for cheese producers. Moreover, European institutions removed all obligations for milk producers to give their milk to the provincial public warehouse (the 'ammasso').**
- **At the same time, producers received a financial aid for building the private warehouse of the main Italian cheeses. This incentive further increased firms competition because producers had the permission to buy milk in other Italian provinces and also in other European countries. Such intervention led to the definitive end of the monopoly of the 'Centrali del Latte', which normally produced a wide product range (the yoghurt and the cream for cooking included).**

- **The CAP supported also the growth of butter and milk powder productions. It established new rules for their storage and sale at a guaranteed and profitable price. New rules were introduced also for skimmed milk and new subsides were granted for the casein used by the factory making cakes and confectionery.**
- **The production and quality of European dairy products improved, and the most successful dairy firms (in particular the Italian and French ones) continued to increase their sales within the European Common Market (ECM). This last in fact enlarged the market for high quality cheeses, which, in the case of the Italian ones, could also benefit from increasing demand from Italian migrants living in other European countries: as had happened in the past, the migrants helped the Italian producers to promote their products, even if the effect was amplified by the progressive reduction of tariffs.**
- **At the same time, the growth of competition led to some dairy producers defaulting due to their lack of capacity in maintaining their profitable earnings: however, the main producers (in particular the cooperative ones) continued to increase their profits and sometimes incorporated the cooperatives crisis**

- **It is important to note that the competitiveness of best dairy factories was also favoured by the reduction of transport fees, thanks to the improvement of infrastructure like railways and highways.**
- **During the 1960s and 1970s this happened in all EEC member countries but in the Italian and French cases the EIB co-financed the building of these infrastructures.**
- **Moreover, the EIB's aims also included financial aid to renovate the equipment and plants of enterprises located in Southern Italy. The EIB's loans had different rules from those of FEOGA subsides: the EIB, in fact, financed a very expensive renovation of the equipment and plants of the firms and, moreover, some major EEC commercial banks participated in the financing project.**
- **So EIB's loans allowed the development of brands as "Sole" and "Vallelata" which progressively became leaders in Italian dairy sector and exported in all European markets**

- However the cost of CAP support became unbearable and a reform of the rules in favour of milk producers became necessary. Thus, the new European rules promulgated in 1984 introduced productive quotas and penalties for excess production levels were established. This new intervention enlarged the gap between large and small producers.
- Regulations 856/84 and 857/84 introduced a “decoupled policy” and allowed European institutions to control the milk offer for the monitoring of the quantity of milk produced. Every European country could produce a maximum quantity, and all producers had to respect their maximum production limit. A responsibility levy (called “milk quotas”, whose value was amended several times) was established for exceeding quantities.
- The quantitative limits were higher than the real need for milk: thus the new policy did not solve the problem of the EEC milk production surplus and the related costs paid by the FEOGA. The European institution wanted to avoid a shock for milk producers, but this implied that European citizens continued to pay more for the price intervention.

- **European institutions promoted and developed new rules concerning European dairy production, like, for example, the CDO (Controlled Designation of Origin), the PDO (Protected Designation of Origin), the PGI (Protected Geographical Indication), the preservatives that were allowed to be added to dairy products, and all the prohibited products. All these rules favoured big firms, which were able to invest in and adapt their productions on the basis of the new normative framework. So, small and medium producers had to join new producers' associations, which were born to defend some dairy products by frauds and to assure the consumers about the quality of their products.**
- **These producers affirmed that producers' organizations helped the worst firms only and limited, for the best ones, the possibility of diversifying. Thus, they were opposed to restrictive guidelines and stated that quality could be improved by the use of alternative natural ingredients. They considered that their success in the new European dairy market depended mostly on the intrinsic quality of products and only partly on the brand of the producers' associations and their guidelines**

- **“Coupled support” ended definitively in 1992 with the MacSharry Reform, which established “partially decoupled support”. The new CAP helped only small producers and all other subsides disappeared. Moreover, the “threshold price” for non-EU products was cancelled, and this obviously influenced the new EU common dairy market too. Competition increased and prices decreased: dairy producers had to improve the quality of their products, and it was also necessary to develop an efficient supply chain. This obviously favoured the big multinational companies and increased the relevance of “consortia” for all the other producers.**
- **The future was in any case established: a great concentration in the dairy market: few big companies which had a large share and controlled the main retailer markets and some consortia which remained in the market because they had high quality products for a niche market.**

- **New European rules allowed producers' organizations to buy "foreign" milk. In particular, dairy factories could decide to produce a new cheese using local milk and/or foreign milk.**
- **European institutions regulated all the phases of the dairy productive systems to guarantee the health of the consumers and the correct competition between producers.**
- **So consumers were able to buy dairy products whose quality progressively increases and they were also able to know all ingredients of the dairy products and had information about the supply chain (especially thanks to the application of labels concerning the origin of the product).**
- **Main normative interventions in particular concerned the product diversification and were relate to: a) the recognition and protection of product origin; b) the certification of environmental attributes of products; c) the valorisation of nutritional characteristics of food products; d) the traceability of products**