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Mr Wolfgang Burtscher  
Director-General  
DG AGRI  
European Commission  
200, rue de la Loi  
B-1000 Brussels

Brussels, 3<sup>rd</sup> April 2020

## **RE: The impact of COVID-19 on the dairy market**

Dear Director-General,

Following the outbreak and spread of COVID-19, Copa-Cogeca would like to share with you their views on its impact on the dairy sector.

Since the outbreak of COVID-19, it seems that among the most important global dairy players, the EU and the US are the hardest hit, while the impact on the New Zealand and Australian dairy market is relatively moderate.

While the EU dairy market has experienced several episodes of extreme volatility over the past few years, it has enjoyed relative stability over the course of the past year. Currently, there is a very negative sentiment in the EU market, which is weighing prices down, at a time when we are also facing peak season. Several dairy product prices have dramatically decreased, with SMP prices sharply falling towards the intervention level. This is already creating a huge amount of pressure on farm prices.

Therefore, we urgently call on the European Commission, together with the Member States:

- to take and enforce the necessary measures so as to ensure that the single market continues to function smoothly. Dairy producers and cooperatives must be able to continue their activity in order to guarantee the daily supply of dairy products to EU citizens. Free movement of goods and labour are essential.
- to activate private storage for all dairy products (SMP, all types of cheeses, butter), to complement public intervention (the public intervention period already being open). This also applies to the frozen storage of buffalo milk and/or buffalo curd considering the expensive freezing costs for these buffalo milk products. This measure would also have a beneficial impact on ensuring year-round food security. All these would have to be financed outside the CAP budget.
- to assess the impact that the closure of schools has had on the delivery of milk and dairy products to schools.
- to avoid unnecessary restrictions stemming from competition law in this *force majeure* situation. The dairy value chain is well integrated and it remains united in adapting to the market changes.

To back up our proposals, let us focus in greater detail on the issues that are destabilising the EU dairy market following the COVID-19 outbreak.

Firstly, there have been fears about border closures. As intra-EU dairy trade is very dynamic, dairy product flows are essential for the market to function properly and any border closure would have a negative consequence in this respect. The measures taken by MS (putting people entering the country into quarantine), might slow down the flows (e.g. drivers in quarantine).

In addition, the almost overnight closure of the food service industry, in both the EU and in key export markets like the US, has had a major impact. This has forced dairy products consumed at this level to be redirected into retail. In some countries, this has given rise to a dislocation of supply and distortion between suppliers who have contracts to supply retail and those whose business models are more highly geared towards food service. Certain processors only specialise in food service and have entirely lost their market. Others have seen the indefinite suspension of key food service contracts based on which they were able to establish milk prices. At retail level, the situation was chaotic during the first few weeks of the outbreak due to panic buying, which led to a peak in sales. Consumers have preferred longer shelf life products, like UHT. Demand for high quality (PDO/PGI) cheeses has decreased, creating unprecedented pressure at that level. Some of the fresh milk that has lost its outlet as a result of the closure of restaurants, canteens and bars had to be processed into other products, for example SMP. This already puts pressure on the SMP price, which has now almost dropped to the public intervention level. As agro-tourism has been affected, demand for milk and dairy products equally went down in this market segment. In addition, particular attention must also be paid to the buffalo milk used to produce mozzarella. This is one of the products that has been particularly affected by this crisis given that buffalo mozzarella is mainly sold through the HORECA channels.

The workforce is also another major cause for concern. In the countries hardest hit by the COVID-19 outbreak, the people involved in milk collection and processing are falling ill or are in quarantine. This already leads to a lack of collection/processing capacity and has severe consequences for processors, some of which are being forced to close down, and for farms. The lack of protective equipment is also an issue.

There have also been problems with logistics/containers for exports to China as not enough containers are coming back from China. While China is slowly recovering from COVID-19, it is not yet clear how many dairy products they will still need as they built up some stocks in December 2019 and January 2020.

Moreover, feed prices are up (due to concerns over the availability of soya from South America in the coming months), export prices have massively increased (due to staff shortages, container shortages), insurance premiums are way up, and dairy market prices, meanwhile, are falling dramatically.

We would like to thank you for considering our requests and urge you to take the requested measures.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Pekka Pesonen', with a long horizontal stroke extending to the right.

Pekka Pesonen  
Secretary General

*Cc: Agricultural attachés of Member States*