Developments, strategies and challenges for the French dairy sector

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Post quota challenges for the French dairy sector

- **Introduction:**
  - The quota era and its consequences
  - Outlines of the French dairy chain
- **Competitiveness of the dairy chain**
- **Taking advantage of diversity at farm and system levels**
- **Conclusion:**
  - Strengths and weaknesses for the future

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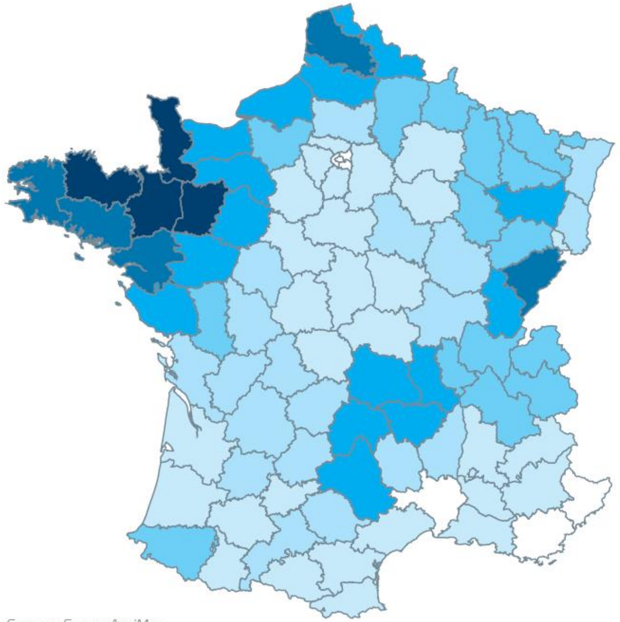
The quota application in France 1984-2015

- **Strong link between ground and quota**
- **No quota market, no leasing**

Quota = a tool to monitor the development of the territory:

Quota = a tool to keep as many farmers as possible (employment)



Source : FranceAgriMer

Localisation of dairy farms, 2014
(92% of territory)

Darker=higher density
White = 0 farm

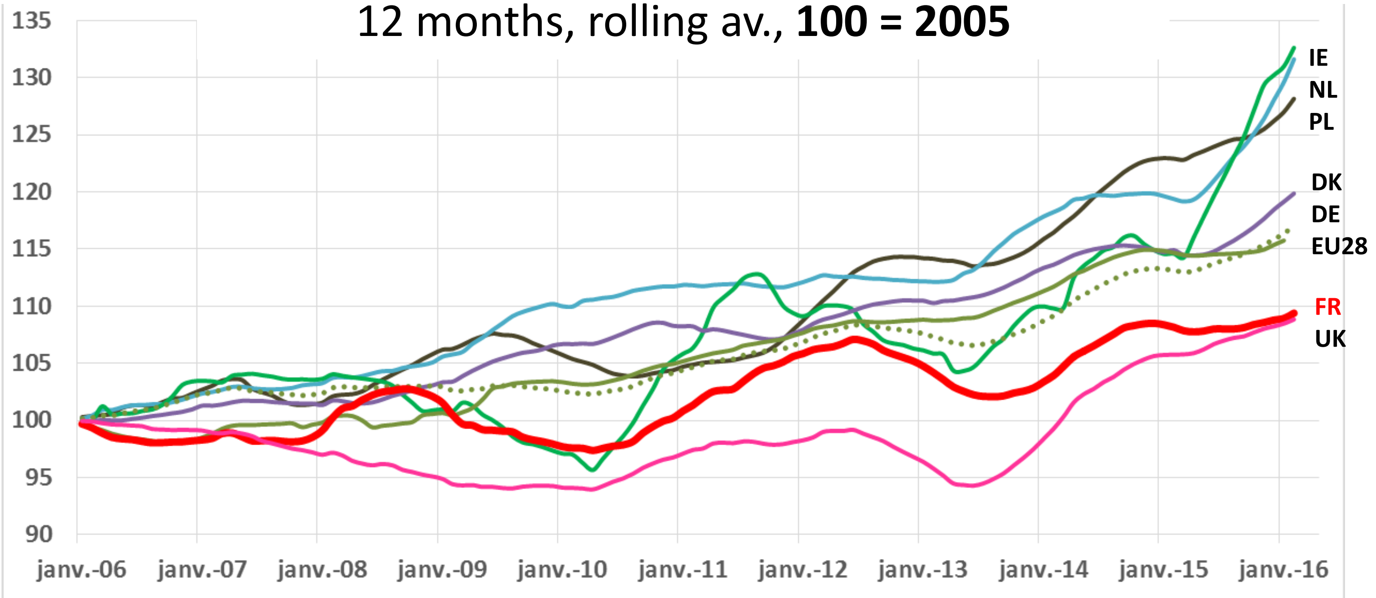
Consequences:

- Slow evolution of farm size
- Diversification instead of specialization
- Search for greater feeding self sufficiency

State of the situation at the end of the quota period (2014/2015)

- **24.8 Millions l milk delivered, 2nd European producer**
  - 4.5% below reference
- **66,000 farms (382,000 l per farm)**
  - 75% plains / 25 % mountains and piedmonts

Evolution of monthly deliveries
12 months, rolling av., **100 = 2005**



2012-2015
Evolution

+23% IE
+14% NL
+10% PL
+12% UK
+7% DK
+6% DE
+3% FR

- **Evolution in France not as “dynamic” as in other countries**
  - Competitiveness?

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Sources of competitiveness of French dairy chain

Price competitiveness : PRODUCTION COSTS

- Volume, specialization, density

Economic efficiency of farms

- Milk price, production costs, volume per worker

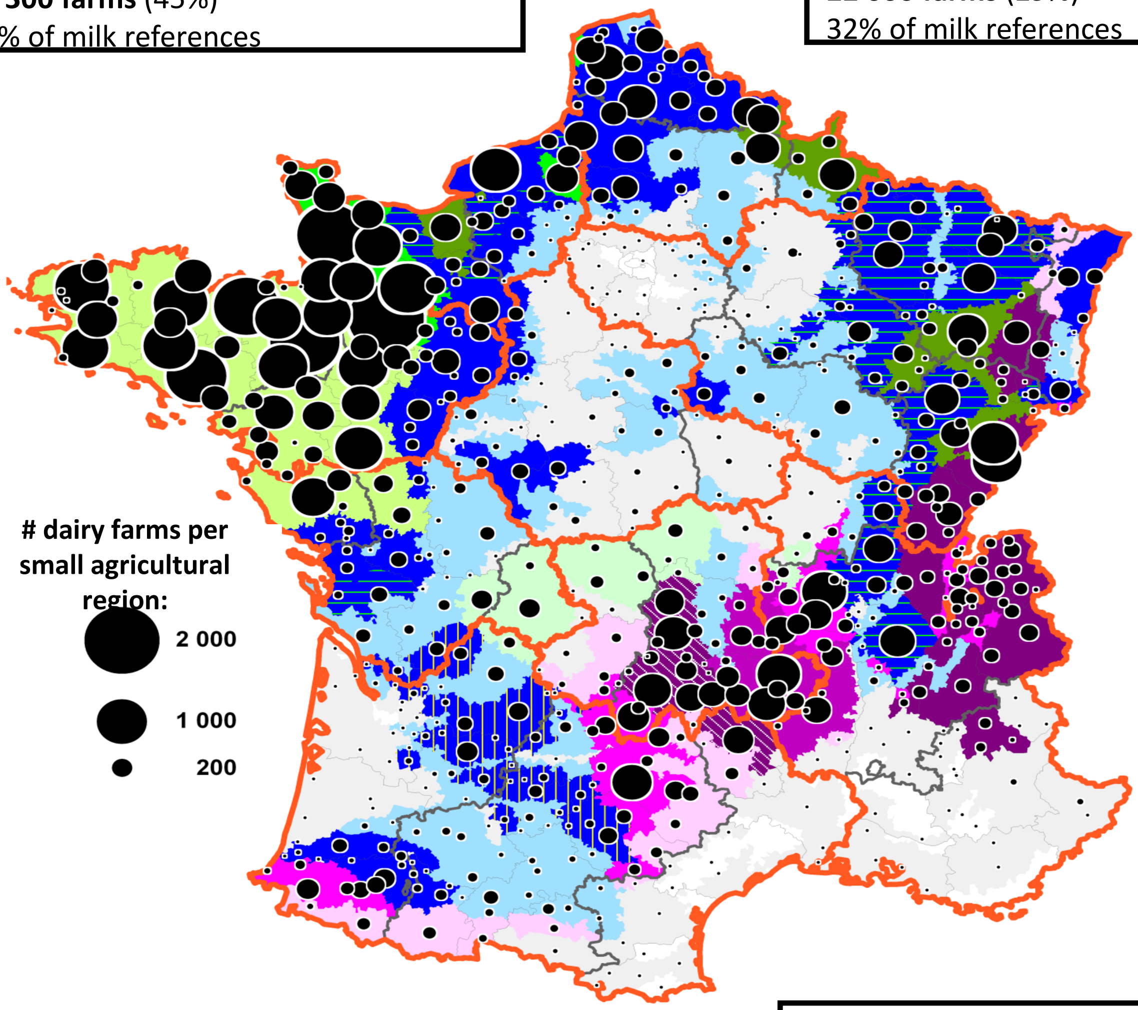
Non-price competitiveness = VALUE

- **A STRONG NATIONAL MARKET**
  - French market = 58% milk produced (#1)
  - Captive consumer products (convenience) market, #1 in Europe: 85% "made in France"
- **A STRONG AND PROFITABLE EXTERNAL MARKET**:
  - Exports: cheese, butter and dry ingredients to balance demand/offer
  - Related to contrasted production areas: wide range of typical products

Non-price competitiveness = diversity

Lowland dairy areas
34 300 farms (45%)
49% of milk references

Crops+livestock areas
22 000 farms (29%)
32% of milk references



Classification of the French production systems (Idele)

Mountains and piedmonts areas
17 400 farms (23%)
16% of references

15% of milk under specifications

- 9.6% PDO
- 2.2% Organic
- Mountain milk
- Regional identities,…

Strong and old link between territory and image

- Very diversified typical products

Main asset for the future

French dairy processing chain: diversified and innovative

- 5 large groups among 25 world leaders:

- Many outsiders (sales > 200 M€):

300 companies - 650 dairy plants – 1,500 products incl. 1,200 cheese types

- Dairy companies innovative on consumer products,
- Thanks to well-known brands,
- But less concentrated and competitive on dairy commodities

Price competitiveness at farm level: milk price and volume produced

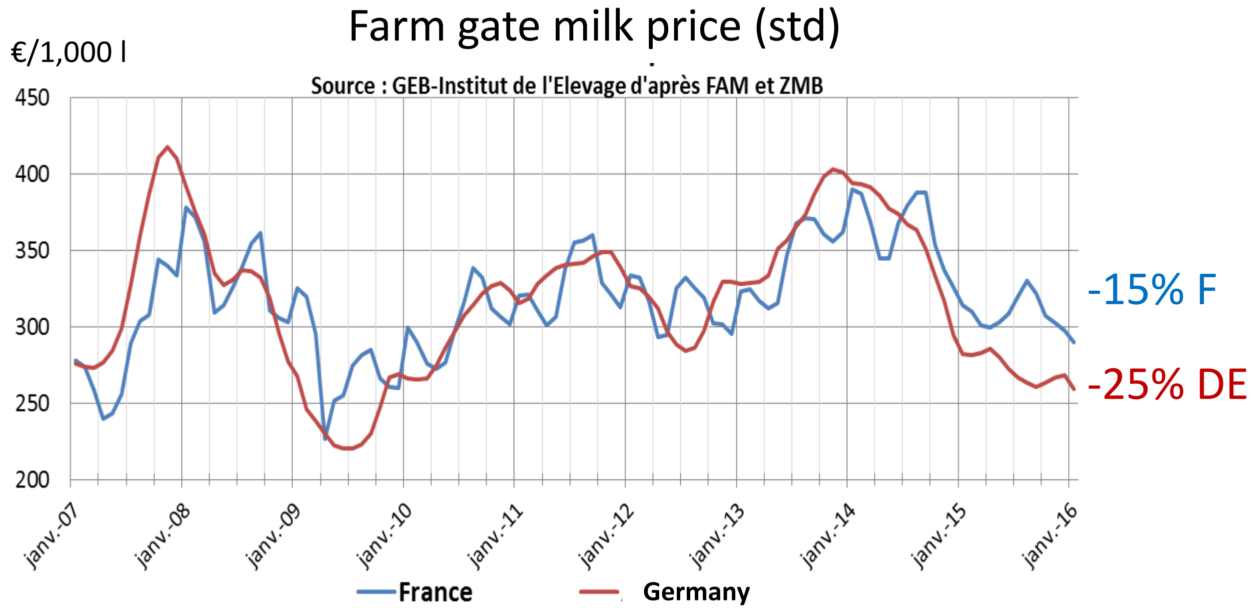
A more stable milk price than in other countries

- not accustomed to face volatility

Consequence of a production monitored and piloted by dairy processors according to their markets

- In particular for internal market, more profitable
- Direct consequence on volume monitoring at farm level
- **Quota replaced by contracts on 4/2015**

  45% private companies, 55% coops

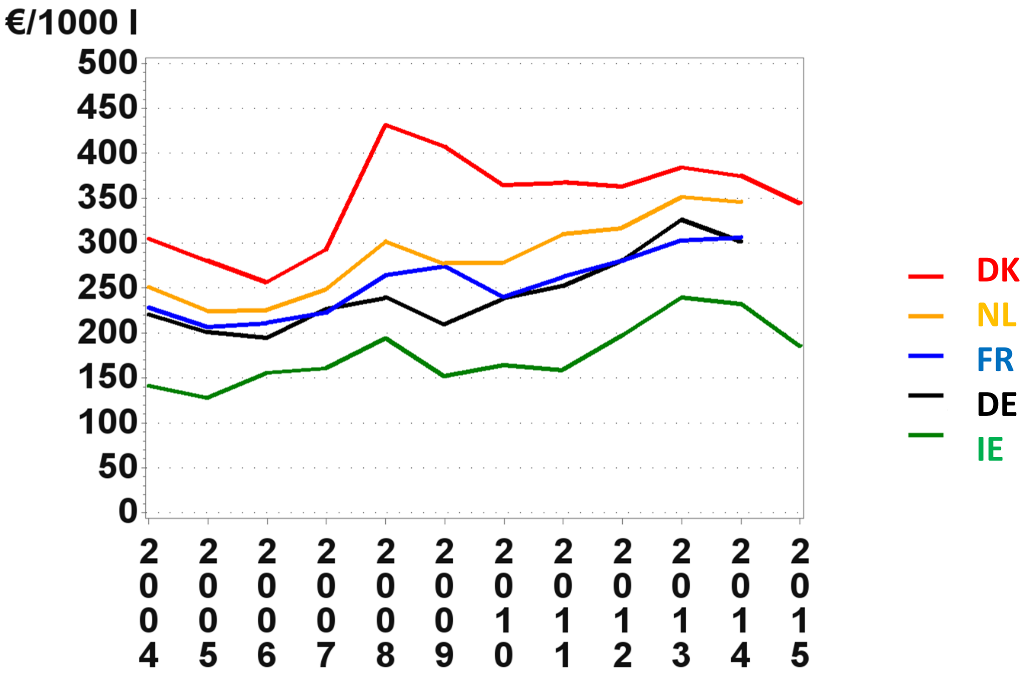


GAB, La France Agricole

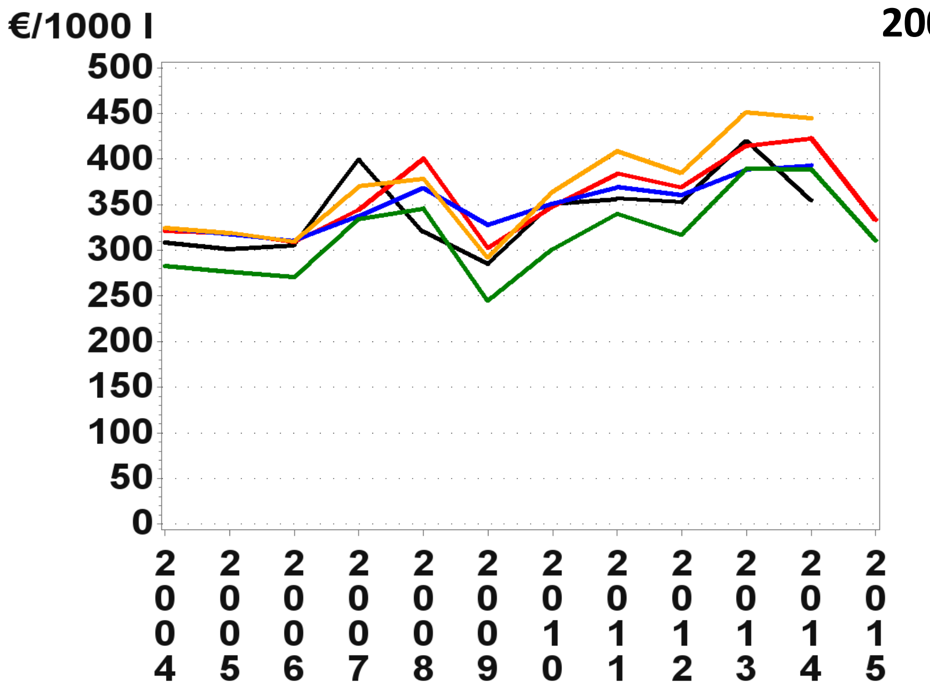
Competitiveness: Lower differences on price than on cost

- The break-even price= indicator of production costs of diverging models

- French Farm gate price limited though high added value in the chain



source DG AGRI RICA UE jusqu en 2012 puis estimations - traitement Institut de l Elevage, exploitations laitières



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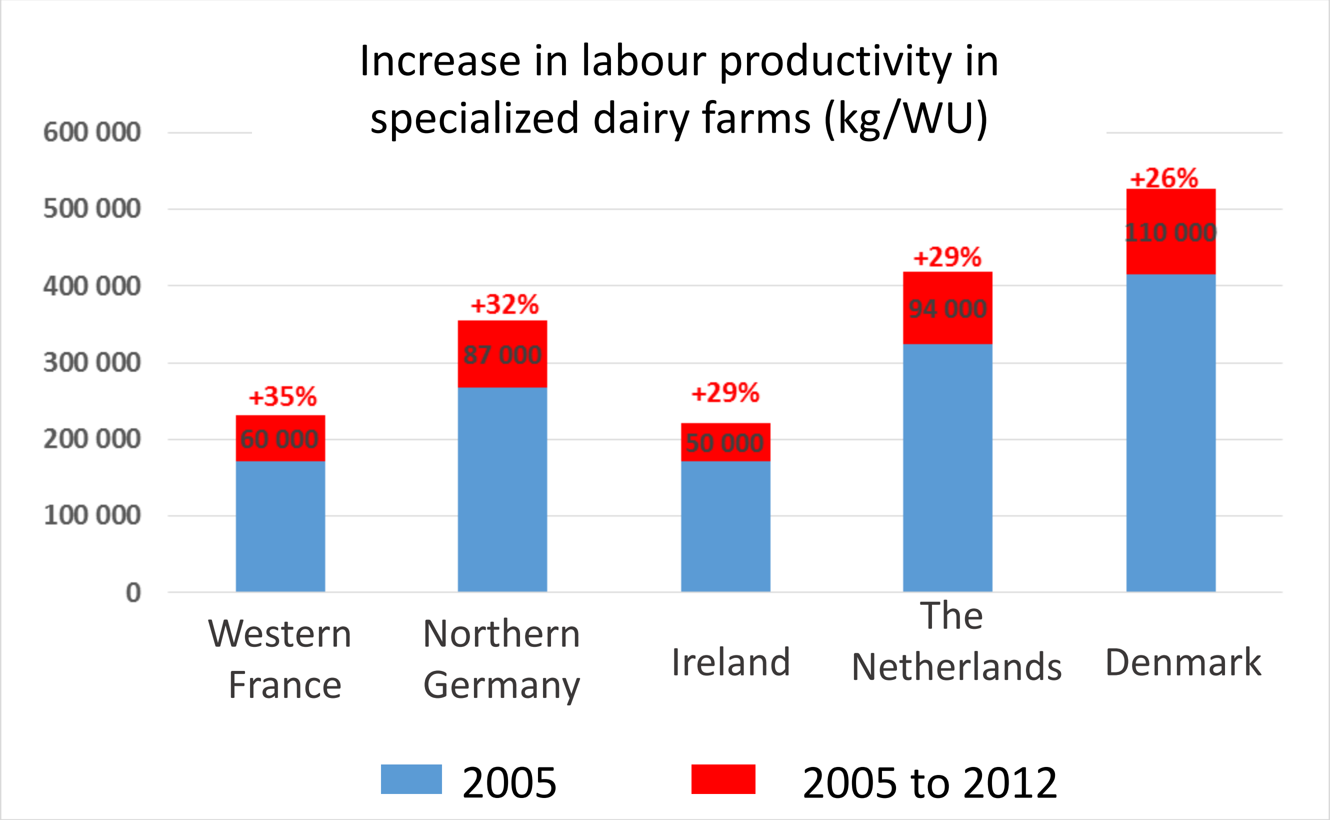
Averages
2007-2012
All farms

355	NL
346	DK
328	DE
326	FR
301	IE

- Processing companies = more jobs and added value

Milk produced per worker is limiting farmers profits

- Less productivity and profit per worker
  - Average production per WU lower
  - Increase at the same rate, gap will remain



- Lower level of specialization

- No advantage taken from diversification of productions because of high machinery cost
- At territory level, lower farm density than in other European dairy regions: collecting costs, services…

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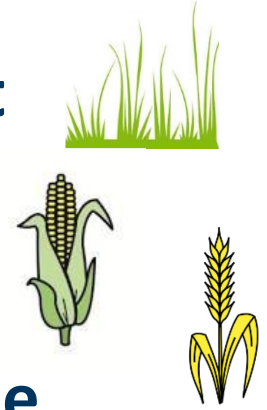
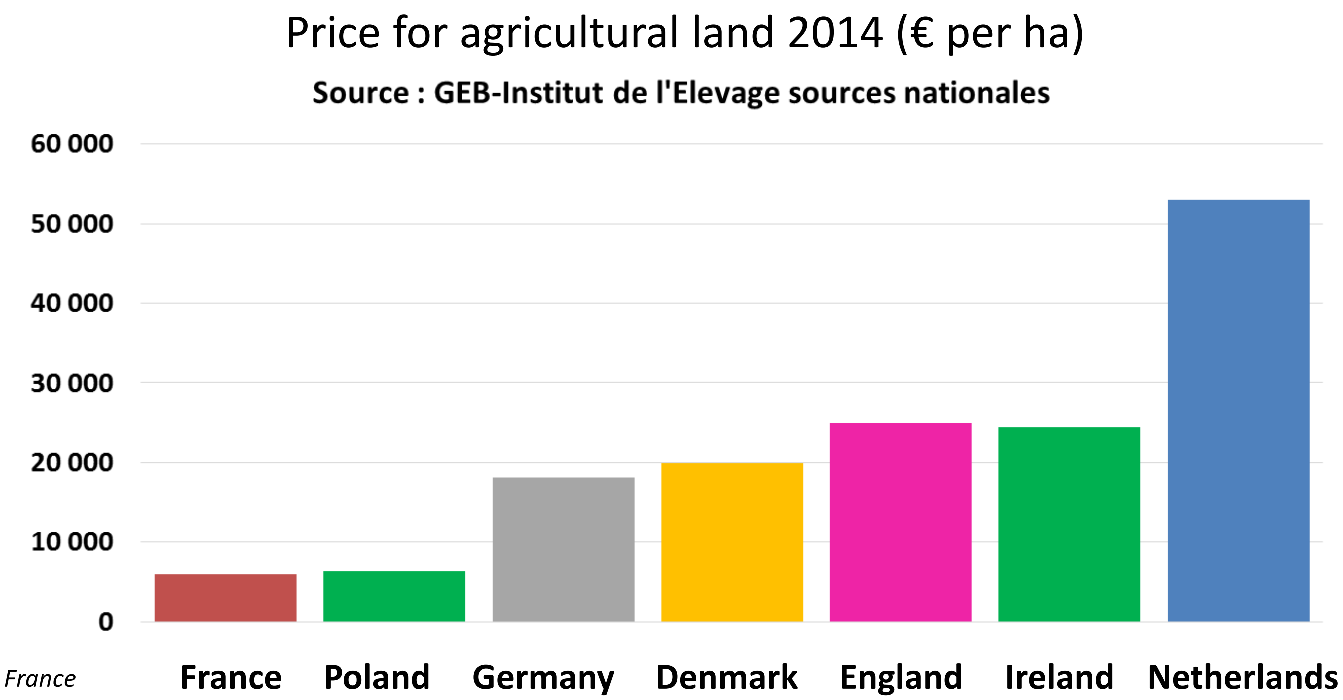
France has many assets for a profitable dairy production

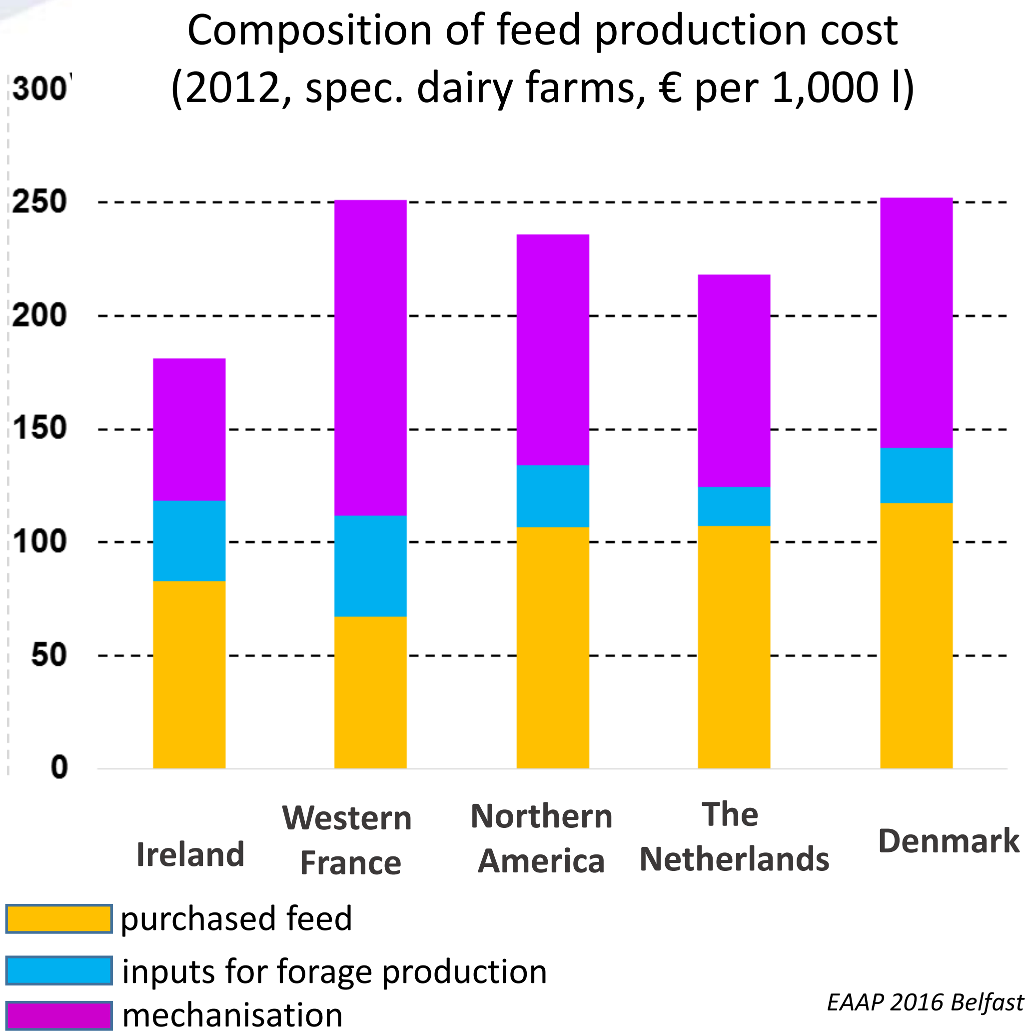
- **Oceanic climate: high production potential for good quality, low cost forages (grass and maize) + crops**



- **Low land price, easy access to land, largest agricultural area in Europe**
  - Average cost: 5,750 € per ha in 2013



French production systems are self sufficient in feed



- **High level of feeding self sufficiency in Western France**
  - Half the purchased feed compared to other dairy basins (170 g per l)
- **But overcosts of machinery to produce forages**
  - Feeding self sufficiency not an advantage if made with silage instead of grazing (sowing, harvesting, delivering have a cost)

Low inputs

High machinery costs

Diversified production systems with link to territory and image

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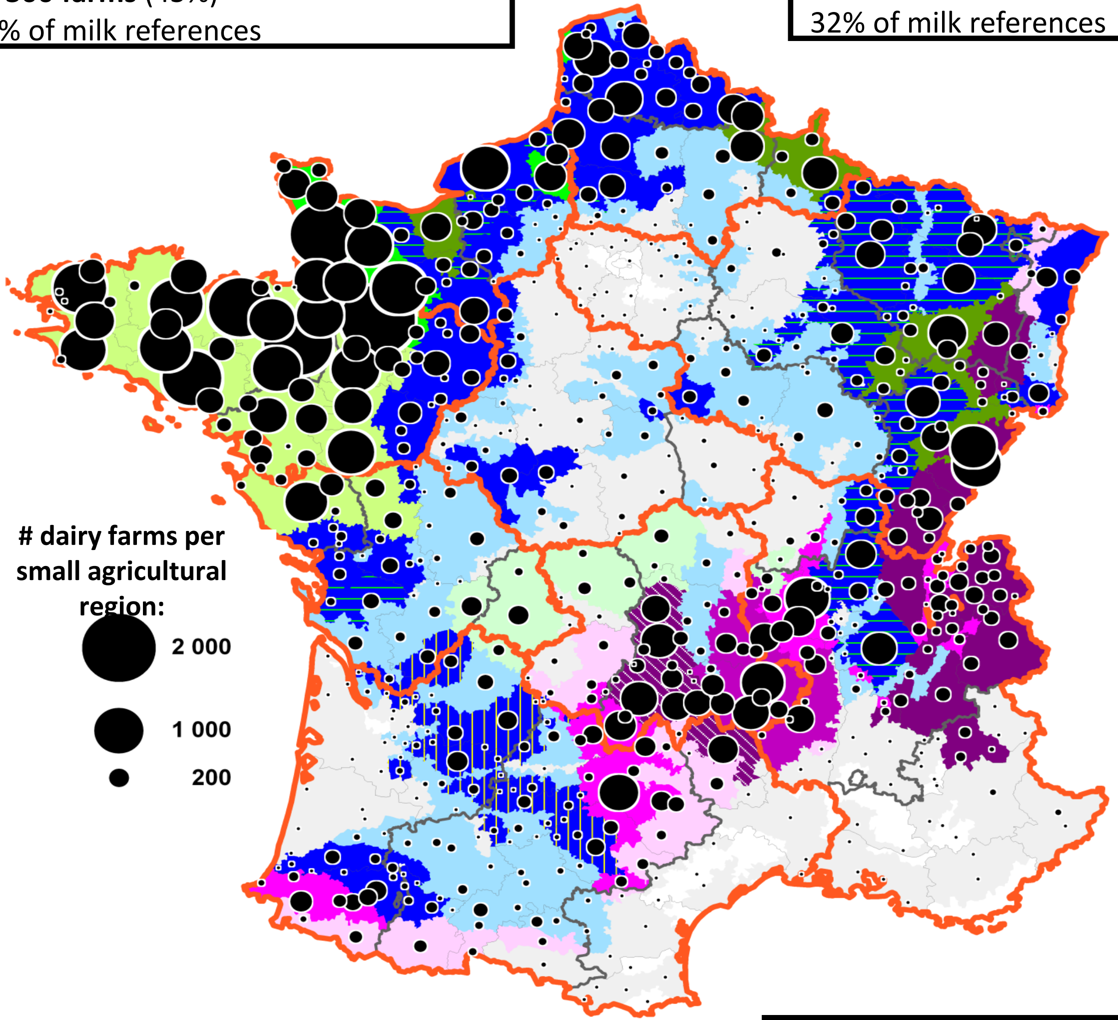

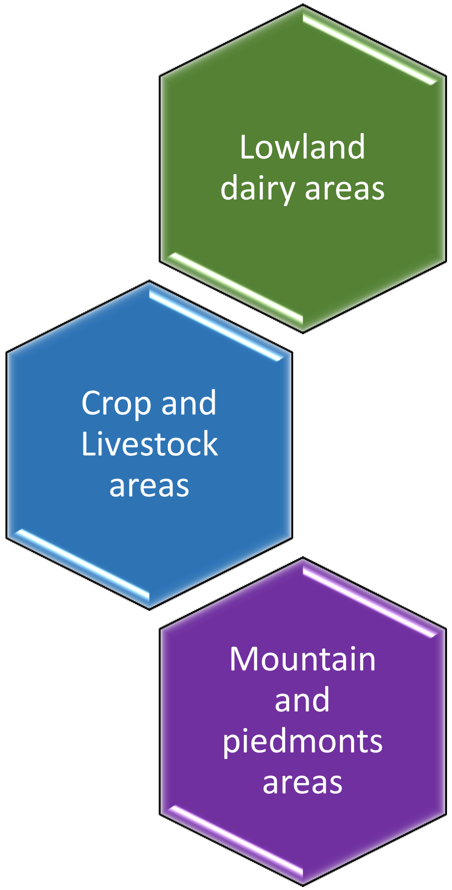

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Challenges for the 3 main production areas/systems

Lowland dairy areas

Crop and Livestock areas

Mountain and piedmonts areas

Agro-ecological production systems

- with moderate resort to maize and improved self sufficiency in proteins (legume based pastures, grazing, home grown energy concentrates and resort to byproducts)

Well planed size increase to improve productivity (milk per worker)

- with indoor feeding systems and resort to mechanisation and automation

Keep strong added value in mountains (PDOs…) together with provision of non production services

- Or risks of disappearance

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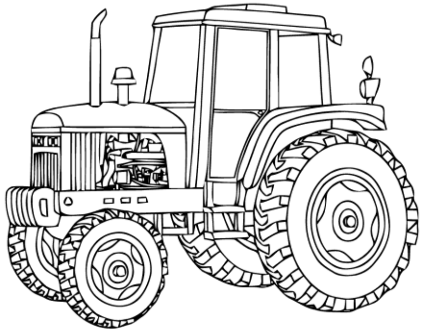
Main assets of the French dairy sector post quota

- High production potential, moderate land cost, large AA, moderate animal density, forage potential (maize and grass), limited inputs, farmers skills
- Diversified production systems with link to territory and image
- Diverse and innovative processing companies, strong brands, captive national market with added value
- Regulation of production by processing chain limiting price volatility
- Many jobs all over the country

A diversified production serving processing chain and solvent demand

Sources: www.Paysanbreton.fr; sill-entreprise.com

Main challenges for the future of French dairy sector post quota



- Milk prices at farm level unsatisfactory
  - added value in chain
  - self sufficient production systems with feeding traceability
- Low input cost counterbalanced by high machinery costs
  - forage + crop production, low resort to contractors, diversification, tax and social costs system…
- Too slow adaptation of tax system to price volatility
- Farm succession arrangements rather unfavourable, no grant for expansion
- Competition with other productions, bad land use
- Environmental regulations firmly applied
- Very low resort to salaried workers (5%). Limiting production increase.

Conclusion: Yes we can, if…

France has a high potential to "agro-ecologically " increase its dairy production

- Keep diversity and support it, source of the added value.
- Aim for non price competitiveness, avoid competition on basic products

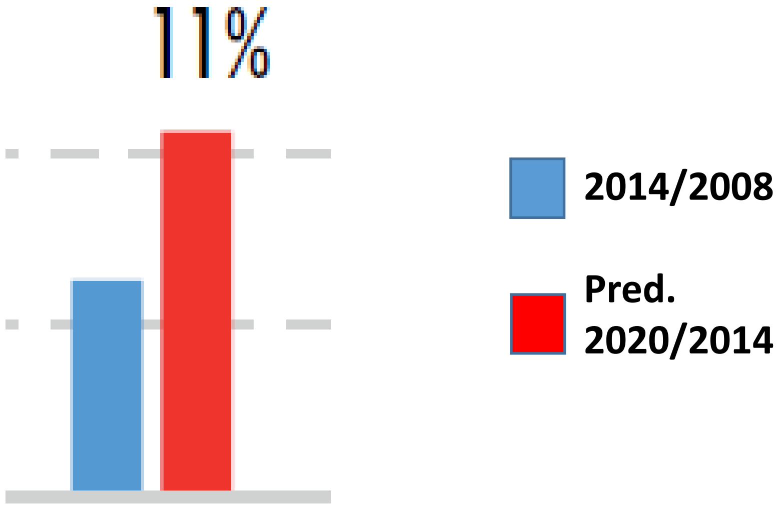
Avoid repetition of errors made at end of quota period:

- No clear message from the dairy chain, lack of collective anticipation, excess of individual anticipation:
  - Too many investments in farms / limited increase in volume piloted by dairy companies
  - No price, no volume, too many fixed costs…

Experts forecast: +11% milk in 2020, but how many farmers?

- **Main risk: lack of dairy farmers.**
  - Training and job attraction to reinforce


Milk production, France



- **Private contracts between French farmers and companies are currently limiting the production increase in the EU…**

Thank you for your attention

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www.eurodairy.eu

Merci !

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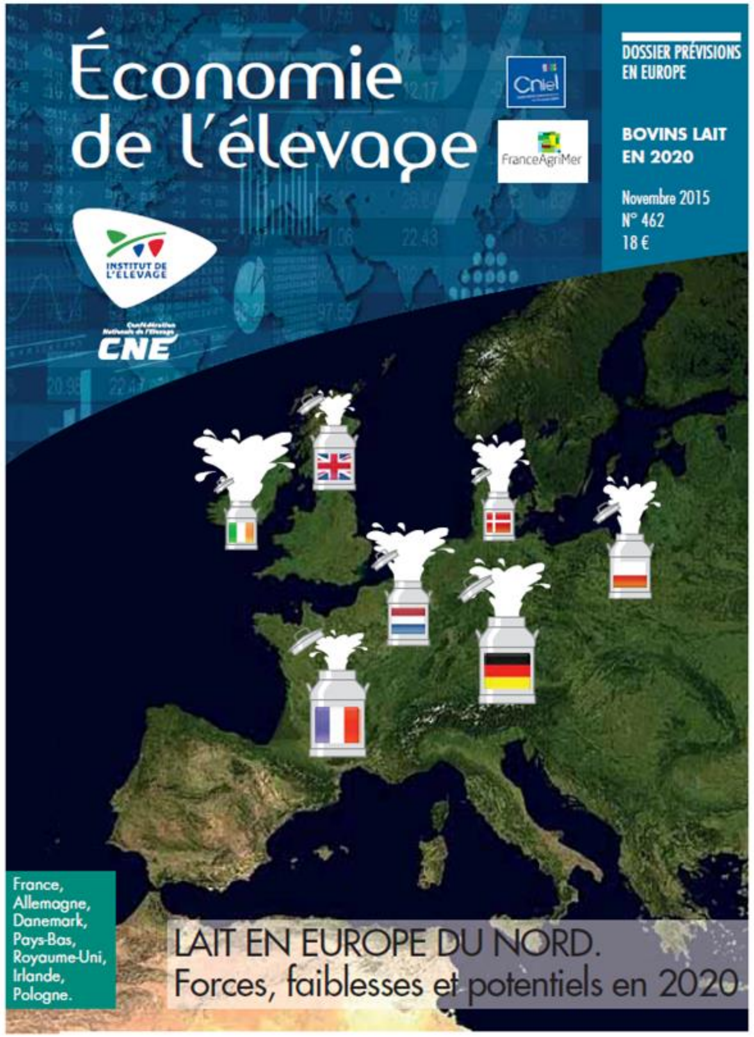

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