

The European Milk Board's position

The European Milk Board (EMB) is grateful for the establishment of the High-Level Group.

Convening the High-Level Group (HLG) on Milk is one of several reactions from the EU Ministers of Agriculture and the EU Commission to the persisting protests from the European milk producers that have joined together in the European Milk Board. Thus, the Ministers and the Commission are sending out a signal that they feel it is necessary to put an end to the situation that is so catastrophic for the European milk producers and actively improve it.

Convening the HLG offers an opportunity to discuss in seriousness the structural problems of the milk market from which the milk producers are suffering, and thus to provide food for thought for the Ministers' opinion-forming meetings to bring about the requisite change to the situation as quickly as possible.

1.) Preamble

The economic situation on the European milk producers' farms is unbearable. Milk production in the European Union has turned into the destruction of livelihoods and capital. That is beneath the labour of the milk producers and their families. And it is altogether beneath the European Union, which in the Lisbon and Gothenburg Strategies has set itself the objective of being the world leader in innovation, employment, ecological and social sustainability. The situation on the dairy farms prevents investments, prevents innovations and runs diametrically counter to all efforts towards sustainable development of rural areas in Europe.

The dairy farm situation destroying livelihoods and capital could have been averted and it should have been averted. The mechanisms were in place to do so, that is incontestable. But they were not applied to that end. The Commissions' proposals and the Ministers' decisions went in another direction.

The collapse of milk prices paid to producers follows the market mechanism that the price is determined more or less by supply and demand. When supply exceeds demand, prices fall. What we have seen in recent years and decades proves that in the European milk market, which features substantially interchangeable qualities, it takes only relatively small surpluses of supply to produce disproportionate slumps in prices.

Back in early 2008, it was evident from the European Commission's reports that demand was not rising, which flew in the face of the European Commission's market forecasts¹, but falling.

Dera¹ COM(2007) 800 final . Report from the Commission to the Council – Market Outlook for the Dairy Sector. 12.12.2007.

However, following the European Commission's proposal and the insistence of some member states, the Ministers of Agriculture decided in March 2008 to increase the milk quotas by an additional 2% as of 01.04.2008.

The demand for dairy produce and raw milk continued to fall in the following months. Nevertheless, in the course of the Health Check the European Ministers of Agriculture passed a resolution in November 2008 on further increases in the milk quotas.

For reactions in the markets for raw milk and dairy produce it was and is not crucial whether the quotas raised by the politicians are exhausted by production in every member state. Instead, the crucial signal for the markets is that in the light of the drop in demand nothing was done to adjust supply to the falling demand, i.e. to reduce supply temporarily. This signalled that supply can be further increased.

The gullible merely saw in the Ministers' and the Commission's decisions an attempt by the politicians to withdraw from creating basic conditions for the milk market.

In fact, however, the full brunt of the decisions was felt solely by the milk producers. The oversupply of milk in the EU that grew further in 2009 (the excess of supply over demand) resulted in catastrophic producer prices for milk. Producer prices in the major producing countries plummeted to record lows.

Although the dairy industry recorded decreases in turnover, unlike the milk producers it still had the possibility of substantially compensating for the loss in profit from selling milk with lower prices in purchasing milk.

In structural terms, the milk producers are the weakest link in the food chain. That is not a new finding.

Those who took the decisions in 2008 to raise the quotas with the intention of leaving the milk market players more to their own devices could and must have predicted that, given the manifest surplus situation, these decisions would hit the weakest link in the chain – the milk producers – the hardest.

They failed to give the milk producers the time and the basic legal conditions to prepare for this situation.

That is why the Ministers of Agriculture and the Commission are now even more responsible and called upon to support the milk producers in this foreseeable situation with structural measures.

The asymmetry to which the European Commission refers in its latest communication² cannot be replaced or equalised by direct state payments, intervention or export subsidies. This asymmetry calls for structural changes to the basic legal framework.

There is still enough time before 2015 to accomplish these pressing tasks. We should all have the courage to take this first step before the second, and not to flinch from reviewing decisions until the requisite preconditions are in place in the legal framework and implemented.

We would also like to make one thing clear at this juncture before we turn to your concrete questions at today's meeting: the milk producers organised in the EMB do not advocate the system of milk quotas in Europe prior to 2008. More than two thirds of farms have given up milk production since 1983. The EMB is not worried about how to save a system that so far has done nothing to help the milk producers out of their position as structurally the weakest link in the milk market.

Instead it is the EMB's concern to come up with and achieve basic conditions that support the following objective: a milk market in which every player in the chain can achieve a balance of interests that is fair, i.e. on a level playing field.

The High-Level Group can do a great deal to help achieve this objective. We should all grasp these opportunities. The European milk producers are watching very closely to see what results are achieved here.

The great resonance generated among the general public by the EMB milk producers' campaigns and demands in recent years and months is testimony to the great responsibility of this High-Level Group, of the Council and the Commission.

² COM(2009) 591: Commission communication: A better functioning food supply chain in Europe. Provisional version. 29.10.2009, S. 5.

2.) Answers to the High-Level Group's questions of 10.11.2009

a) Contractual relations between milk producers and dairies to achieve a better balance of supply and demand

The EMB recognises that with this question the High-Level Group is undertaking to achieve a better balance between supply and demand. The EMB explicitly supports this aim.

However, this worthy aim cannot be achieved at present by contracts between milk producers and dairies. For several reasons:

- Milk producers and dairies pursue different interests, as is the case of suppliers and buyers of a product in any sector of the economy. These different interests also exist precisely in the question of supply and demand, because the negotiating position of the demand side (dairies) is strengthened by an oversupply of milk, whereas the negotiating position of the supply side (milk producers) is weakened by oversupply.
- To balance supply and demand a fair reconciliation of the milk producers' and dairies' interests would be required regarding the relationship between supply and demand.
- The prerequisite for this equilibrium of interests would be both sides – milk producers and dairies – having a negotiating position of similar strength. In actual fact, though, there is a striking imbalance of power between producers and dairies, to the detriment of the producers. In its communication on a better functioning of the food supply chain, the European Commission says that there are “significant imbalances in bargaining power”³. The Commission even refers to the risk of “the asymmetry in bargaining power (...) leading to unfair trading practices”⁴.
- The asymmetry in bargaining power cannot be rectified by “standard contracts” or greater supervision of competition on the part of the dairies. Because under current conditions the dominating dairies can take it for granted that their raw material will not be in short supply, even if they pay as little for the raw material as this year.
- The asymmetry in bargaining power to the detriment of the producers is due to the producers not being given any opportunity to adjust their milk supply actively and flexibly to demand (or being deprived of this opportunity by eroding the quota).

³ COM(2009) 591: p. 5.

⁴ idem

- As long as they are not given any chance to react effectively in a co-ordinated, joint way to falling prices with reduced production, they will never be in a position to negotiate at all. It is not enough to refer to the possibilities of each individual milk producer to react, because the reactions of individuals have no effect on the market, as all experience shows. What is required instead is the real possibility for milk producers to act in unison or generally binding provisions, as they are part and parcel of regulating quotas.

In view of the imbalance in bargaining power between dairies and milk producers, recommendations from the politicians to further develop and strengthen contractual relations between producers and dairies seem cynical to the milk producers. Because that will not solve the problem. It shifts the problems and functions of state quota regulation totally into the dairy industry's sphere of action and decision-making. Dairy quotas would then replace state quotas. That may be in the interest of the dairy industry, but in no way will it help rectify the asymmetry in bargaining power, as is intended. The EMB can but warn against this, and the European milk producers will not accept it.

b) How can the bargaining power of the milk producers be strengthened?

To make the position of the producers in the market stronger and to achieve cost-covering milk producer prices, the following basic conditions are required, which can only have the desired effect when taken together:

1. Monitoring Agency

To analyse and estimate supply and demand, a European Monitoring Agency has to be set up in which every side of the milk market is represented: milk producers (EMB), the dairy industry, the retailers, consumer organisations and politicians. This agency would ascertain the costs of milk production on a regular basis. The corresponding cost-covering producer price would be the yardstick for stipulating the volume of milk and the use of various mechanisms by the Monitoring Agency

2. Producer-financed levy

A legal basis has to be created that allows for the introduction of a producer levy that is binding on every milk producer in the EU. This shall be used to finance demand-oriented supply control, i.e. enabling the volume to be adjusted depending on the development of demand.

3. Universal applicability

An EU-wide, legally enshrined limit on supply based on reference volumes for individual farms is required to enable market-shaping instruments to bite.

4. Uniting the milk producers

Finally, a legal basis has to be created that enables milk producers to unite on the level of the member states, and additionally into producer co-operatives that can operate independently of the dairies and are given the right to take effective measures for the flexible adjustment of supply to the actual market demand.

5. Measures to be implemented in the short term to raise milk producer prices

In view of the market crisis, a plan by stages has to ensure the milk price rises to a cost-covering level. For this the politicians have to implement a rapid reduction in the volume of milk so that dairies can pay cost-covering milk prices as quickly as possible.

This calls for the following measures:

- a) Effective restriction of national netting possibilities
- b) Freezing the annual quota increases, retroactive to at least from 1.4.2009
- c) A pan-European invitation for a voluntary, time-limited reduction in volumes. The funds from the super-levy paid by the producers and the export subsidy and intervention funds can be used for this measure. This way, these funds can be used in a way that has an effect on the market and is of direct benefit to the dairy farms.

Corresponding regulations and laws must be passed in such a way that they can become effective in good time.

c) Transparency in the distribution of value creation to milk producers, the milk industry and consumers

Similarly to the bargaining power situation there is also a clear imbalance in market transparency to the detriment of the milk producers, and to a limited extent to the detriment of the dairies. It is the retail trade that has the least transparency; the greatest transparency is in the production of milk. In terms of the absolute, temporal and regional developments in volumes, milk production is as transparent as no other.

The problem of this one-sided transparency for the milk producers is that they cannot derive any active reaction from the market report findings as long as they are afforded no possibilities of pooling that have an impact on volumes and as soon as the quotas are no longer universally binding.

Transparency is a hallmark of a social market economy, because a precondition for competition is informed players. But transparency alone is of no use to the players unless they are handed the opportunities to react to market signals.

3.) A final suggestion

Finally our express wish is to encourage you to make the High-Level Group's work as transparent as possible. A brief hearing of the parties involved can only be regarded as a beginning. We expressly offer you our active involvement in your group for the next meetings as well.

Moreover, we are convinced that the EU milk policy also has a considerable impact on other sectors of society, e.g. for rural crafts and trades, as well as for the protection of nature and the environment, development policy, animal welfare and consumer protection. We therefore propose actively integrating the social players from these sectors in the High-Level Group process. We milk producers will in no way shun this social approach.