

MILK-NEWS



Dear Dairy Farmers and Interested Parties,

There is growing concern amongst Irish dairy farmers regarding the direction of milk price in 2012. The majority of milk processors cut milk price by 3 cents per litre for April and are now strongly signalling further reductions in the coming months. With milk price now at 31 cents per litre and with rapidly escalating costs, a very serious situation could arise unless further milk price reductions are averted. We are carefully monitoring the situation right across Europe and we are only too aware that this situation is being mirrored in many of the Member States; unfavourable weather has driven input costs upwards and international dairy markets have been under pressure in recent months.

ICMSA, the Irish member organisation of the European Milk Board (EMB), is opposing the milk price reductions imposed by the Irish processors and has met with nearly all the major processors in the last two months. Our opposition here is not 'knee-jerk'. It is quite clear that while markets have recently weakened, Irish processors made very substantial profits in 2011 and, given the Co-op ethos, it is our firm opinion - which we have repeatedly expressed to the processors - that those profits and reserves must now be deployed to support milk price. How exactly for this reason producer organisations in different European countries engage in milk pooling to improve their members' lot is also a focus of this issue of the EMB Newsletter.

Milk price will be the key issue over the coming months in Ireland and Europe but the current situation clearly highlights – yet again - the need for a more defined policy at EU level to deal with volatility. And it is precisely the realisation that these problems can only be solved at EU level that has led our Association to make the critical commitment to the EMB. The EMB brings to the question is a dynamism and purely dairy focus that was badly needed and was, perhaps, not completely appreciated by all the representative groups already in situ.

I am a farmer from the west coast of Ireland and on first glance it must seem like I would not have much in common with my counterpart in Holland or Bavaria. But that impression is profoundly mistaken; there is much more in common than there is difference. We are the primary producers of a substance on which an enormous and very valuable international sector actually rests and yet we are – or, at least, we seem to be – the least consideration in terms of deciding upon a policy that will deliver us an income proportionate to the work, skill and investment we make in producing the milk on which everything else rests.

I know this is the case. My counterparts in Holland and Bavaria and everywhere else in Europe know that this is the case. And together in EMB we are going to fight to change a system that puts the people who produce the milk last in line.

John Comer (Member of the EMB-Board and President of ICMSA)

We have to take charge now!

In the interview below the President of the MEG Milch Board Peter Guhl explains the new strategy of his producer union as a reaction to the EU Milk Package, which came into effect recently.

BESTE: *Mr Guhl, what consequences did the MEG Milch Board as the biggest German milk producer union draw from the outcome of the negotiations on the Milk Package in Brussels?*

GUHL: “We steadfastly championed our interests in the negotiations on the Milk Package, and together with the EMB were able to contribute many of our ideas as well. The results of the Milk Package make us angry, though. In our view it is now time to roll up our sleeves! The dairy farmers now have to take charge of the matter – and by that I mean the milk.”

BESTE: *Up until now the MEG Milch Board has only united producers. Does the change in strategy mean that you now intend to collect and sell the milk yourselves?*

GUHL: “Well, we have no plans at present to acquire a fleet of milk trucks. Our idea is to take over negotiations, drafting and concluding contracts almost like service providers for the dairy farmers.”

BESTE: *So does that mean that there will be a market and price negotiations upstream of the dairies?*

GUHL: “Yes, precisely. The “trade” level has to be inserted between the producer level and the processor level. And that requires the producer level being strong enough to be an equal negotiating partner. It is always easier to put individual producers under pressure. If a producers’ union signs the contracts instead of the individual producer – with co-operative or private processors – it is no longer possible for the processors’ cost-cutting to be achieved at the producers’ expense.”

BESTE: *With this new strategy, to what extent can the production costs be included in the pricing of the milk?*

GUHL: “One of the duties of the MEG Milch Board under its Constitution is to calculate a base price that takes the full costs into consideration and which we can use in the negotiations.”

BESTE: *Mr Guhl, in your opinion there does not necessarily have to be a correlation between milk delivery and capital invested. How can they be separated as long as there is the obligation to supply?*

GUHL: “Some 2/3 of the German milk producers are members of dairies organised as co-operatives. What this means is on the one hand the producers providing the dairy with equity capital by subscribing to shares, and on the other hand being allowed to supply solely this company with all their milk for processing under the obligation to supply stipulated in the Constitution. The obligation to supply has to go. It has nothing to do with free competition and undermines the strengthening of the producers by pooling that was announced – by the Milk package, too.”

BESTE: *And how exactly is that pooling to take shape?*

GUHL: “Pooling raw milk is a matter for the out-and-out producer organisations. It is vital that all organisations decide on at least a federal state level (e.g. Bavaria MEG in Germany) to co-ordinate all market decisions and market movements. Not one litre of milk goes to the dairy industry if there are no concrete terms of contract. Then, following the example of Bavaria MEG, nationwide marketing structures will have to be put in place to stop the producer unions being played off against each other.”

BESTE: *Given the limits on pooling prescribed by the Milk Package, how would such a nationwide pooling take shape? Would there then be simply three or four Milch Boards?*

GUHL: “In theory, yes. The work of the federal state MEGs would have to be combined on a national level. Ideally this would be channeled through MEG Milch-Board Deutschland w. V. However, we will have to assume objections under cartel law to a single nationwide organisation. The Germany MEG ratifies the federal state MEGs’ contracts, concludes any direct supply contracts with retailers, draws up market analyses etc. It would also be a liaison office for a European inter-branch organisation, working with a monitoring agency, milk control board and market control board. But we have to realise that this will not be a structure that is ideal from the outset. It will have to be set up step by step. Nor are matters of cartel law to be regarded as a stumbling block from the word go. It is never too late to start something new!”

The interview was conducted by Dr. Andrea Beste (MEG Milch Board)

France MilkBoard: Take the Opportunities

As milk producers and companies in France are now obliged by law to conclude contracts, the expansion of a producer organisation like France MilkBoard is even more important.

France MilkBoard’s primary objective is to become an independent, sectoral organisation: independent not only of the dairies but also of the biggest farmers’ union in France, FNSEA, whose priority is quite obviously no longer defending the producers’ interests; sectoral to prevent a repetition of such a devastating situation as Switzerland is currently experiencing and the competition between companies inevitably being at the expense of the producers.

France MilkBoard combines three unions and organisations: APLI, OPL and, only recently, the Confédération Paysanne. France MilkBoard’s objective is a fair price achieved by systematic supply management and taking into account the real production costs and remuneration for labour on a national level. However, we should not lose sight of the fact that a sustainable solution must include the creation of a European organisation in which France MilkBoard would be fully integrated.

France MilkBoard’s strategy can be summarised in two expressions: protest and proposals. Despite the pressure/threats from the industry in its attempts to force the producers to join its associations and sign its one-sided contracts, France MilkBoard is continuing its campaign to convince farmers at their farm gates to come on board.

In tandem, however, there are ongoing negotiations with the private companies to find out on which points there is agreement and where opinions differ. There are no negotiations with co-operatives at present, as their members in France are precluded from uniting in producer organisations.

There would seem to be many points on which agreement would be possible. However, negotiations on the prices milk producers require usually end up in lack of understanding and conflicts. So an amicable solution to the milk problem would be difficult if not impossible. Unless the politicians assume their responsibility soon, another way will have to be found to solve this problem.

Paul de Montvalont (President of Office du Lait)

Co-operatives: Members in the Netherlands worse off than in Germany

A short time ago solicitor Oliver Schniewind drew up an expert opinion commissioned by the

German Dairy Farmers Association (BDM), studying the legal position of individual milk producers in relation to “their” co-operative. The Dutch Dairymen Board (DDB) has now submitted this expert opinion to Dutch lawyers to have them assess whether the legal position of milk producers in the Netherlands is comparable, and to what conclusions the expert opinion would have come based on Dutch law.

Although Dutch legislation is similar to German law in most areas, there are differences which make the legal position of members of Dutch co-operatives worse than that of their German colleagues. Above all the “structure provision” limits the rights of co-operative members in the Netherlands. This provision must be applied if the co-operative meets the following criteria:

- The equity capital is at least € 16,000,000.00
- There is a works council in the co-operative (or in a company independent of it) because of a statutory obligation
- In the co-operative (and in companies dependent on it) there are at least 100 staff employed in the Netherlands.

Apart from exceptions, the co-operative is subject to the statutory structure provision if the above criteria are met for at least three years without interruption. In this case the provision demands the following of a co-operative:

- A supervisory board with at least three members must be appointed
- The Supervisory Board must approve certain resolutions passed by the Executive Committee as stipulated in law.

The upshot of this is that many decisions that used to be taken by the General Members’ Meeting are now taken by the Supervisory Board. Although commissioners are formally appointed by the General Members’ Meeting, both the General Members’ Meeting and the Works Council as well as the Executive Committee are entitled to propose them to the Supervisory Board. The Supervisory Board then proposes the persons to be appointed. This has a decisive effect on weakening the influence of the members in the General Members’ Meeting.

The Dutch lawyers have drawn up various recommendations on how the members of the co-operatives could exert more influence through amendments to the Constitution. The DDB’s plan for the next few weeks is to discuss these proposals with the members of the Executive Committees of the co-operatives and if possible come up with joint solutions.

Sieta van Keimpema (EMB Vice-President and President of the DDB)

Agricultural Social Insurance: Differences throughout Europe

Social security for farmers in Europe operates differently from country to country, varying a great deal depending on the nation states’ traditions and particular features. For instance, it varies mainly with regard to the insured group of persons, the organisation, the range of benefits and the funding. France, Finland, Austria, Germany, Greece and Poland are the only countries that have their own social insurance systems for agriculture.

In each country with its own agricultural social insurance system, this system usually operates in parallel with a general social security system and the insurance systems of other professional groups. Different life risks are covered in different countries. In Germany, Austria, France and Poland the agricultural social insurance comprises accident insurance, a pension scheme and health insurance, whereas in Finland it consists solely of accident and pension insurance, and in Greece only pension and health insurance.

In some countries specific family benefits are also paid by agricultural social insurance. In this respect the French Mutualité Sociale Agricole (MSA) in particular runs social institutions for farmers such as old-people's homes, rehabilitation and holiday centres. To a lesser extent these responsibilities are also assumed by the agricultural social insurance funds in Greece and Poland. On the other hand, benefits comparable to the payment for help at work or at home in Germany are found only in Finland and France.

The core task of social insurance systems in agriculture is protection for farmers and their families based on the principle of solidarity. In the countries referred to that operate their own social insurance for farmers, generally speaking those covered are the independent farmers, their families and previous holders. Agricultural workers are only included in Greece and France. In Germany agricultural workers are covered only by the accident insurance.

According to the Association of Agricultural Social Insurance Systems in Germany, there are about 15 million people on social benefits in agriculture in France, Finland, Austria, Germany, Greece and Poland, amounting to some € 47 million a year. In most states the agricultural social insurance funds are organised as public corporations. Only in France and Finland do they operate under private law, with the French MSA competing head-to-head with other private insurance companies.

For some time now there has been a trend in most countries for the percentage of the agricultural population to decrease steadily, as a result of which the ratio of contributors to beneficiary pensioners is becoming worse and worse. That is why it has become necessary for the social insurance system to be partly funded by the taxpayer. For example, in Austria the state funds about 25% of accident insurance, 46% of health insurance and 74% of pension insurance, whereas for instance in Poland health and accident insurance is still funded solely by contributions, but the pension scheme is 90% funded by the state.

Christian Schnier (EMB)

Swedish Milk Producers take to the streets

The Swedish member organisation of the EMB Sveriges Mjölkbönder organised an event for consumers and milk producers in Stockholm on the occasion of the World Milk Day on 1 June 2012. Both milk producers from Sweden and other European countries had come to Stockholm to support the day. The aim of the day was to highlight the importance of the Swedish milk production and to address the serious situation with decreasing amount of milk producers in the country.

The event started in the morning at 10am. During the day milk was served to people in Stockholm and in the afternoon a panel discussion with Swedish politicians took place. The main issues addressed were equivalent conditions for Swedish milk producers as in the rest of Europe.

Sieta van Keimpema, vice president of the EMB, emphasized the wider European perspective of the demonstration and expressed the unconditional support of milk producers from all over Europe for their Swedish colleagues. From the EMB Board Romuald Schaber, President of the EMB, Erwin Schöpges from Belgium and Erna Feldhofer from Austria had also travelled to Stockholm to support the Swedish cause.

During the afternoon, different activities contributed to a greater public visibility with the citizens of Stockholm.

Maria Mehlqvist (Sveriges Mjölkbönder)

The Umbrella Association of Swiss Milk Producers sticks to its Exit from the Inter-Branch Organisation.

The main feature of the current situation in the Swiss dairy market is unprecedented record production levels. Milk prices are plummeting, and the only way to dispose of the increased volume of milk is on the world market in the form of butter and milk powder. In May alone the prices paid to farmers fell by between 2.5 and 4 centimes.

The inter-branch organisation (BOM) has failed to solve the problems in the Swiss dairy market since it was established three years ago. In the end this was the reason why the umbrella organisation of the Swiss Milk Producers (SMP) left the BOM in autumn 2011. This means the BOM has lost its status as a inter-branch organisation, as its only remaining members are the milk trade organisations, the processors and the retailers.

The SMP is making any return contingent upon several conditions. Firstly, the Constitution of the BOM has to be overhauled. Three parties should be represented in the BOM: the producers, the dairy trade and processors and the wholesale trade. Each group appoints its representatives. The producers must be represented by independent dairy farmers, because previously the processors and the trade tended to dictate who was allowed to represent the producers. Moreover, each party has a blocking minority with which it can block one-sided resolutions.

Secondly, some of the resolutions passed by the BOM would have to be finally implemented. This primarily relates to a special levy of 4 centimes a kilo on the increased production volume. On top of that, the voluntary supply of C milk for the world market, transparent segmentation on every level of the dairy trade, and the control of all milk flows and accounting by an independent body.

The Swiss Farmers' Union has now stepped in with the intention of mediating in the dispute. But no-one can expect much to come of it. The Swiss Farmers' Lobby for Price and Market Action (BIG-M) – one of the two EMB member organisations in Switzerland – has called on the major farmer-run dairy trade organisations to leave the BOM as well. They had boldly announced that they would likewise quit unless the BOM decided on serious reforms. There again the fact that these organisations have not already quit is proof of how they find themselves “being held hostage” by the processors. No-one wanting to sell milk is allowed to appear to be against the interests of the processing industry. Anyone doing so will have difficulty selling milk.

The BOM recently decided that despite the falling prices in the European countries neighbouring Switzerland and the very large volume of milk, the reference price for A milk would not be lowered. This resolution sent out a positive signal to the media. Unfortunately, however, the media failed to report it and the resolution has been ignored by the market. There has simply been a shift, with the price for B and C milk falling and the processors buying more and more B and C milk instead of A milk.

Werner Locher (BIG-M)

Co-operatives: a System for the Future?

An international conference on “Co-operative Answers to Global Challenges” was held at Humboldt University in Berlin from 21 to 23 March 2012. The aim was to discuss forward-looking approaches to the creation of a better economic system.

A total of 239 conference-goers from 56 nations came to this event in Berlin as part of the current International Year of Co-operatives. A key conclusion of the presentations and discussion – however only valid in developing countries - was that co-operatives achieve up to 40 per cent higher prices in the market for their members than private companies do. So they were seen as a democratic answer to an increasingly privatised economy.

Unfortunately, the majority of the 75 presentations led to little more than academic discussion, and produced few results that could be put into practice. Only the presentation by Prof. Markus Hanisch of Humboldt University in Berlin took a critical look at the development of large co-operatives into structures that are also standard in the private sector, and in this respect questioned the members' control function. His most important statement was that recent trends towards growth and concentration, organisation in holding structures or international acquisitions to some extent redirect the orientation of interests between farmers and their co-operatives and can even erode the effect of price benchmarking. These concerns would give cause for further study of the importance of the role of decision-making processes in agricultural co-operatives.

Dr. Andrea Beste (MEG Milchboard)

EMB Calendar

Please find below some of the most important events in June 2012:

- 4./5.6.: Workshop Food and Agriculture of the ATM network
- 12.6.: Meeting of the EMB-Board in Brussels
- 13.6.: Meeting with ECVC and FFE in Brussels
- 14.6.: Meeting with a milk producer organisation in Brussels
- 25.6.: Advisory group on CAP reform regarding international aspects
- 26./27.6.: Alliance meeting of the ATM network in Brussels

Contact:

EMB – European Milk Board, Office
Bahnhofstraße 31, D – 59065 Hamm, Germany
Tel.: 0049 – 2381 – 4360495
Fax: 0049 – 2381 – 4361153

office@europeanmilkboard.org
www.europeanmilkboard.org