EMB Newsletter February 2014

MILK-NEWS

Dear Dairy Farmers and Interested Parties,

The announcement in September to establish a market observatory at EU level to monitor the market situation for dairy products is a welcome development and hopefully the first of many positive developments within milk policy in the EU. Volatility, be it weather, input costs or output prices have been a feature of the Irish dairy landscape since 2006 and will remain a huge challenge into the future. With quota abolition looming in 2015, strong policy decisions will be needed to address volatility at national and EU level to ensure the long term future viability of farming in Ireland and the EU.

The last decade has seen an unstable trend in the prices of both milk and calves, the two main outputs of an Irish dairy enterprise. The removal of price supports has resulted in increased price volatility in European dairy markets which historically, has been more typical of the world dairy market. Record high milk prices were recorded in 2007/2008; they were followed by substantially lower milk prices in a crisis situation thereafter. This has seen monthly average prices increase to more than 40 per cents above the average in 2008 and dip to 50 per cents below the average in the following years. From 2007 to 2013, milk prices at the farm gate in Ireland have fluctuated from close to 40 cents per litre to as low as 20 cents. The recent rise in milk prices in 2013 can be attributed to higher demand for dairy products, lower supply as a result of weather abnormalities across the milk producing nations of the world, increased concentrate feed cost, and exchange rate volatility.

This volatility increases pressure on farm cash flow from year to year, and could result in the exit of many more farmers from the industry. Preliminary estimates for costs of production on Irish dairy farms in 2013 show average costs are 38 cents per litre. This is stark contrast to 29 cents per litre in 2000, this shows that uncertainty from price and input volatility has become commonplace. The rise in production costs had been a stable if not insignificant increase from 2000 to 2006. However, thereafter has seen costs fluctuate year on year but always returning to a higher base.

Ireland's reliance on the production of commodities for export has increased the sector's exposure to market uncertainty and, as a result, the Irish dairy sector has seen substantial milk price volatility. In the midst of such volatility, there is a need amongst dairy farmers to adapt their production system and minimise costs in order to ensure their future economic viability. Increased output and input price volatility provides a much more challenging environment and will require improved cost efficiency at farm level. There are serious challenges facing dairy farmers from price and cost perspectives into the future and it is up to the new market observatory to ensure fair and justified returns to dairy farmers for their quality produce.

John Comer (President ICMSA and member of the EMB board)

EU-US free trade agreement of no benefit to dairy farmers

The news everywhere in the media at the moment is that the EU and the USA are currently negotiating a transatlantic free trade agreement. In times of severe economic crises in many EU member states, the EU Commission is expecting from it a boost for growth and new jobs in Europe.

What may be good for sectors of the manufacturing industry does not necessarily apply to European milk producers, though. The structure of farms and the constraints on milk production in the EU and the USA are too different. Whereas, for instance, the use of growth hormones to increase meat and milk production is common practice in the USA, it is banned in the EU for good reasons. With the conclusion of the free trade agreement the fear is that the governments will agree on the lowest standards, of advantage solely to the agricultural industry. This could compromise consumer protection in the EU, where it is based on the precautionary principle. The consequences of the resultant price war and the loss of trust among European consumers would be unforeseen for family farming in Europe.

Another problem of the EU-USA free trade agreement is EU border protection with dairy products. Unlike most industrial products, sizeable duties are still levied on dairy products imported into the EU. Maintaining this border protection by customs duties is crucial to the European Milk Board's central demand for flexible supply management in the EU milk market. Should it become possible in future to import into the EU without or with very low duties on the level of world market prices, the aim of cost-covering prices for milk producers in the EU would become remote.

This would open the floodgates even more to the agroindustry's plans for an ever increasing concentration in the dairy market and the disappearance of smallholding agriculture. As the official name of the free trade agreement – Transatlantic Trade and Investment Partnership – already indicates, it is not solely about free trade, instead it is mainly about promoting and securing industrial investments. This does not, of course, exclude dubious agricultural industry investments.

The worst thing about this free trade agreement between the EU and the USA, however, is that the EU Commission is negotiating with the US government behind closed doors. There is no provision for maximum transparency with the disclosure of all documents and texts of the negotiations, as is usually the case with national and EU legislative processes. The absolute primary concern must therefore be the demand that the negotiation process be made accessible to the public. Only in this way will it be possible to realise the dangers to which European dairy farmers will be exposed. Should that not be the case, our democracy is fundamentally put at risk.

There has already been one small success resulting from public outrage over the negotiations on the free trade agreements. The EU Trade Commissioner Karel de Gucht announced that from March 2014 there will be a public consultation on planned investment protection clauses in the agreement. It is feared on many sides that, because of these clauses, governments could be sued by companies before private courts of arbitration if they were of the opinion that legal provisions, e.g. of an environmental nature, jeopardised the profitability of their investments. This could crucially restrict governments' legal room for manoeuvre.

The EMB has allied with other civil-society organisations in Europe to follow the course of the negotiations in Brussels closely. At its Members' Assembly in spring, the EMB will adopt a position paper on the planned free trade agreement.

Christian Schnier (EMB)

Solution for the EU dairy sector within reach for the first time – the European Milk Board's demands heard by politicians

The following press release was published at a press conference on the occasion of the International Green Week in Berlin on 16 January 2014:

2014 will be a key year for European milk production. After the tough negotiations on the Milk Package and the CAP, a solution for the EU milk market is now within reach for the first time. In the next few months, the EU Commission intends to table proposals for a market monitoring agency in the milk sector – something that has been demanded by the European Milk Board (EMB) for years could become a political reality. Romuald Schaber, President of the EMB, stresses the importance of the market monitoring agency: "Equipped with the requisite powers this institution could be a first step towards long-term stabilisation of European milk production."

The producers' situation remains tense

A study carried out by the BAL (Büro für Agrarsoziologie & Landwirtschaft) provides evidence that farmers' production costs are not covered by farm-gate milk prices. Last year the picture was one of slightly higher income but again markedly higher production costs. In July 2013, for instance, the costs in Germany were 42 cents a litre, yet the average milk price was only 38.55 cents. So once again dairy farmers were unable to make a profit despite a rise in earnings in 2013, and continued to sustain losses. This situation makes one thing clear: to cover costs, prices must be higher across the board.

Study shows: market regulation is necessary

In September 2013, there was a conference organised by the EU Commission on the future of the EU milk sector after 2015. Taking a recent study, the EMB proved the necessity of a neutral regulatory agency for the European milk market. "As the study shows, past crises could have been avoided with such a monitoring agency. If the planned monitoring agency is set up on this model, there is a chance of stabilising the EU milk market appreciably from 2015", said Romuald Schaber. The fact that a solution for the entire EU milk sector now seems possible is primarily due to the focused work of the European Milk Board and its member organisations. Without the initiative of the EMB, the intense discussion in the EU would never have taken place.

Now it has to be put into practice

But discussion alone is not enough: "Now's the time for concrete instruments", insists Romuald Schaber. "The monitoring agency must be set up in such a way that it can react to the market situation by adjusting volumes." The milk market could only be stabilised in the long term with demand-led production. The European Milk Board therefore calls on European decision-makers to turn the good approaches into reality. Because Europe needs milk production throughout Europe and strong milk producers. And the EMB will ensure that the milk producers' voice continues to be heard clearly in Europe.

Christian Schnier (EMB)

MEG Milch Board study on the economic situation of dairy farms in Germany

The milk production cost study and the resultant Milk Marker Index (MMI) showed that for several

years now dairy farms have had to face a continuing shortfall in covering their costs. No wonder, then, that many dairy farmers are giving up: between 2005 and 2012 alone the number of farms plummeted from 110,000 to 84,900. According to AMI figures there are now barely 80,000 dairy farms in Germany (as of Dec. 2013).

That is why the MEG Milch Board posed the question of how the economic situation of the dairy farms still in production has developed. For their analysis – as in the study referred to above – they took representative data supplied by the EU's Farms Accountancy Data Network (FADN). The study incorporated only accountancy data from specialised dairy farms generating more than two thirds of the standard gross margin from milk production. It looked at the years 1999 to 2009; after that the EU changed the methodology, meaning that the data cannot be compared with more up-to-date data from the German network of test farms.

Conclusion

The key findings of the analysis of the economic situation of dairy farms in Germany can be summarised as follows:

- In the last 20 years the real farm income of milk producers has not gone up despite actual structural improvements. This applies to all farm sizes included in the study.
- In the milk crisis years of 2008 and 2009 in particular, capital allowances were directly used up on many farms. Reserves and assets had to be drawn on to cover the costs of living and provide the farms with economic stability.
- On medium-sized and larger dairy farms the level of debt has increased, and it is precisely on the growth farms that debts cannot be reduced, despite a further increase in the volume of milk. Many of these farms cannot survive on their income from agriculture alone. In the end they are dependent on direct payments from the EU.
- The milk crisis and debts resulted in a reduction in equity capital for medium-sized and large farms.
- Many farms are still suffering from the consequences. Even four years after the milk crisis the farm-gate prices for milk still do not cover costs.
- Even if at present relatively high farm-gate prices for milk give the impression that a living can be earned with milk once again, it is not yet a case of "everything OK". Prices would have to remain at a higher level in the longer term for financial reserves to be accumulated. There is an urgent need for measures to stabilise the economic situation of dairy farms.

The full text of the study can be read at: http://www.milch-board.de/Milchmarkt

MEG Milch Board

30,000 people demand: Stop the agroindustry!

The following press release was issued on the occasion of the "We've had enough!" demonstration in Berlin on 18 January 2014:

Led by hundreds of farmers and 70 tractors, 30,000 people demonstrated outside the Chancellor's office in Berlin today. The demonstrators called upon Federal Chancellor Merkel and Vice-Chancellor Gabriel to overhaul the agricultural policy. Instead of carrying on operating "clientele

politics for the agricultural industry" the federal government ought to champion a social, animal-friendly and ecological shift in agriculture.

"The Grand Coalition is driving the agricultural policy to the wall! Anyone who approves of and subsidises mega stables, emphasises exports and free trade, and on top of that is considering GM plants on the fields of Europe, is leaving the farmers in the lurch and acting against the interests of consumers, animals and the environment", says Jochen Fritz of the "We've had enough!" alliance. "What we expect from the new federal government is an agricultural policy that stops species and farms dying and combats world hunger."

In particular the organisers criticised the planned free trade agreement between the EU and the USA (TTIP). "Behind closed doors the EU Commission is negotiating a free trade agreement that will jeopardise farmers and consumers alike. The vast majority of people don't want any chlorine-rinsed chicken, hormone-treated meat or genetic engineering through the back door", said Fritz. Yet that is exactly the threat if the planned free trade agreement goes ahead.

The demonstration was organised by the "We've had enough!" alliance comprising more than 100 organisations, including farmers, beekeepers, nature, animal and consumer protection organisations, development organisations and unemployed initiatives.

Christian Schnier (EMB)

New WTO mini trade agreement adopted in Bali

In the second half of December there were media reports like: "WTO concludes historic trade agreement". The devil is in the detail, though: the agreement contains just ten individual agreements on issues that are too limited. They include the simplification of customs formalities in trade and better market access for the poorest developing countries to emerging and industrialised countries.

The issues that are actually controversial, such as an even more aggressive opening of markets for industrial and agricultural goods or services, were not even on the agenda. These wishes of industry and business can no longer be so easily satisfied in the WTO, because in the course of negotiations in recent years the developing countries have pooled their interests and demanded protective measures for themselves and non-industrialised economic activities. And even in this mini agreement developing countries were able to have parts of their demands for food security and promoting small farmers accepted.

"That was something the G33 group of developing countries, with mainly smallholder farming, co-ordinated by India and Indonesia introduced in the negotiations some time ago", says Tobias Reichert from Germanwatch, who observed the negotiations in Bali. "This proposal acquired a new urgency when the Indian government decided to boost the sale of state-subsidised staple foods in a reaction to civil-society groups like the *Right to Food Campaign* recently." Schemes like this are regarded in the WTO as trade-distorting subsidy when foodstuffs are purchased at state-regulated prices. The agreement is now that through a "peace clause" no WTO member is allowed to bring a claim against the current aid programmes in India until a lasting solution has been agreed by amending the agricultural agreement. "This is not yet a solution, at best it is a beginning", says Reichert.

Critics like Biraj Patnaik of the Indian *Right to Food Campaign* or the German Bread for the World relief organisation likewise demand an amendment, whereby the food programme in India should not be restricted to cereals, and other countries should also be allowed to implement state measures for food security.

The last multilateral agreement came into effect in 1995, along with the founding of the WTO. No agreement has been reached since then. However, trade policy is being given a boost in bilateral agreements outside the WTO. The EU alone has concluded 45 agreements to date and is in negotiations with 87 countries. The content of the agreements exceeds by far what was discussed in the WTO with regard to opening markets.

Berit Thomsen (AbL)

EMB Board meets Lithuanian dairy farmers at Green Week in Berlin

On 17 January, members of the EMB Board met a high-ranking delegation of the Lithuanian Chamber of Agriculture on the fringe of International Green Week in Berlin. Besides the current situation in the EU milk market and potential risks for milk producers in Europe posed by a future free trade agreement with the USA, they discussed the possibility of the Lithuanian milk producer organisation becoming a member of EMB.

The President of the Lithuanian Chamber of Agriculture and a dairy farmer himself, Andriejus Stančikas aptly pointed out that the shared aims of all European milk producers can only be achieved if the milk producers in Europe stick together as a family. Close contacts between the EMB and the Lithuanian dairy farmers were agreed for the next few months.

Christian Schnier (EMB)

EMB diary

These are some of the most important dates for the EMB Board in February 2014:

- 19.02.: Meeting with the Polish milk producers' association PFHBiPM in Warsaw
- 25.02.: BDM dairy farmers day in Karow, Germany
- 27.02.: Press conference at the Salon internationale de l'agriculture in Paris
- 27.02.: Meeting with the Norwegian farmers' union in Oslo

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