

## Dear dairy farmers and interested parties,

### A year after the end of quotas - a fiasco for European milk producers

April 1 marked a year since Dairy Produce Quota Regulations, the technical term for milk quotas, were abolished by policy-makers. This step towards liberalisation of the EU dairy market has emerged as a monumental error in this short period of time.

This decision has had a dramatic effect, simply in the short-term, on the dairy market as also on milk producers and their income. Farmers are using this new "freedom" to produce milk like there is no tomorrow. The market has been unable to absorb the additional volumes for a while now. While volumes in storage are skyrocketing, farm-gate milk prices are in free-fall. This is not just the case in Europe, but all over the world! Representatives from dairies are already talking about prices falling below the 20-cent limit quite soon. At the end of the day, this will put the livelihood of innumerable farmers on the line. It is already clear that milk producers in the EU have seen their earnings drop by 30 billion euros in 2015 and 2016 as compared to the previous two years. Back then, milk prices were more or less viable in all countries, even if they were far from good.

The EMB is already holding talks with important policy-makers to promote the implementation of - where appropriate - temporary, binding cuts in milk production. This process will most definitely be accompanied by further bold, public actions by European dairy farmers. The days of long-winded experiments are over; it is now time for effective action.

*Romuald Schaber (EMB President)*

## EMB Newsletter April 2016

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## Agriculture Council backs voluntary production cuts – but only an insufficient version of it

the milk market.

**It should be coordinated on a central level. Voluntary production cuts only at producer organisation and cooperative level CANNOT stabilise**

Yesterday in Brussels EU Ministers of Agriculture agreed on measures for the dairy market. On a positive note, decisions-makers finally understood that it is the European-wide overproduction that needs to be addressed. In order to do so, they want to use voluntary production cuts. For a long time already, the European Milk Board has advocated such a solution. European farmers have long been fighting for a reduction in volumes. However, unfortunately the measures that were decided are only half-baked and have not been thought

through.

It is clear that measures aiming at increasing intervention volumes and selectively implemented production cuts will not relieve the dramatic situation and thus not put a halt to price slumps. The increase of production volumes in the coming months will quickly neutralise the potential effect that these measures could have. "These measures cannot put an end to the crisis on the dairy market", says EMB-President Romuald Schaber. "For instance, we just received the information that in Germany some farmers will only receive 21 cents/kg for the milk they sold in February. Such a downward trend cannot be stopped by such soft measures."

In particular the measure of voluntary production cuts – which according to article 222 of the CMO 1308/2013 should be implemented on the level of producer and inter-branch organisations and is now to be extended to cooperatives – might be well-intentioned but reveals significant shortcomings. The problem in this case is that the regulation of volumes is not coordinated on a central EU level, so that it cannot relieve the market as a whole. Furthermore, it does not foresee a cap of production volumes for all producers during the period of voluntary production cuts. As a result, the positive effect reached through the reduction of volumes will immediately be counteracted by the increase in production of other producers.

If producer organisations and cooperatives have the choice whether or not to implement production cuts, their willingness to participate will vary significantly. There are concrete examples for this from Switzerland, where producer organisations who implemented production cuts lost members, as in other producer organisations no restrictions in production were to be expected.

It is no longer acceptable that the Commission and the Council put forward only half-baked solutions. The problem concerns the European market as a whole. Measures thus also need to be adapted to the market as a whole.

The responsibility towards the market needs to be in the hand of each producer. In other words, when a call for tenders for an EU-wide voluntary restraint of production is published, each producer can decide individually whether or not he wants to reduce his production in exchange for a bonus payment. If after three months at the latest no clear effect of volume reductions is to be observed, a mandatory EU-wide reduction of production has to apply.

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## Situation in Germany

After a year without quotas, the price of raw milk has tanked even further. This ongoing milk crisis is depriving dairy farmers of their livelihood. Loss in value creation of over 6 billion euros in Germany alone shows that there is an acute need for remedial action.

In January, the farm-gate price for milk with 4.0% fat and 3.4% protein content was 27.45 cents/kg. According to the latest milk price projections by Fonterra, the milk price crisis will not ease up in 2016 either - in fact, a milk price of 20 cents/kg has been predicted. Germany's largest dairy is already at a farm-gate price of 21 cents/kg. Private storage of butter has increased to 7,564 tonnes in the period from 2015 to 2016 and 5,315 tonnes of skimmed milk powder have been put into intervention since 01.01.2016 in Germany alone. These figures are rising week by week.

The Berchtesgadener Molkerei dairy sent an urgent appeal to its members at the beginning of March. In this letter, they highlighted the fact that too much milk was being supplied to the dairy. It was unable to handle such large volumes and they asked their suppliers to provide less milk.

In Bavaria, the SPD party submitted a proposal for a label for "meadow-grazed milk." This label aims at aiding dairies to create a high-price market segment for milk and milk products made from meadow-grazed milk, thus retaining and further strengthening value creation in rural areas. The application was categorically rejected by the CSU with the reproach that there are already too many labels.

This year, the BDM picks up where it left off last year. A number of talks with policy-makers as also with members in the form of dairy farmers' evenings are lined up. In fact, a dairy farmers' evening held on 14.03.2016 in the Reutberg marquee was attended by over 500 participants. At these events, misdirected policies and proposals for available solutions are dealt with in greater depth. This opportunity is also used to try and present the concept of market crisis management.

*Ralf Kainer, BDM*

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**The European Milk Market: Raise your milk price by two eurocents per kg by investing 0.34 eurocents towards cessation - or spend one eurocent to obtain a price increase of 5 eurocents**

the time to wait for demand to increase.

The entire milk sector agrees that supply must be reduced in order to achieve an increase in milk price, given that you – Danish dairy farmers - do not have

Against this background, the National Association of Danish Dairy Farmers, Landsforeningen af Danske Mælkeproducenter, has commissioned calculations by Dutch analyst Mark Voorbergen - previously employed at Rabobank, now at Voorbergen Consultancy. His calculations clearly show that a reduced EU production, or more precisely a reduced export supply from the EU, would have a significant impact on the on-account milk price. The EU represents at least 30-35 percent of global supply.

In 2013 and 2014, European production increased by 6.5 percent in total, and the 2016 forecast is an increase of 1.6 percent. If the average increase had been only two percent per year, Voorbergen's calculations show that production would have been 1.7 percent lower in 2016, resulting in a forecasted scenario with an average EU milk price of 29 eurocents instead of 27 eurocents.

This means a two-eurocent higher on-account milk price as a consequence of a supply reduction of 1.7 percent. Needless to say, that is good business. Support for voluntary cessation would require an investment of 20 eurocents per kg for approximately 2.8 billion kg, which have to be removed from the market. Without any sort of burden on the EU treasury, the milk sector would be able to pay for the support for cessation on its own and still make a profit of 1.7 eurocents.

The same calculation can be made for a production increase of one percent per year in 2014, 2015 and 2016, in which case total EU production would have been 7.5 billion kg lower. As a result, the price would have been approximately 32 eurocents instead of the now expected 27 eurocents, i.e. 5 eurocents higher. If the milk sector itself were to provide the support for cessation, one eurocent per kg would be needed, and net gain would be 4 eurocents per kg.

Cessation support is a win-win-situation with only one missing element: that the EU adopts instruments making it mandatory for all, but who would not participate in something that is good business? At the same time, dairy farmers wishing to leave the milk sector one or two years ahead of schedule due to ruinously low milk prices will get a bag of money for their retirement.

An amount equivalent to 500 million euros as funded by the EU in September for crisis support could have bought away 2.5 billion kg or was just about enough to finance a two-eurocent increase in on-account milk prices. This would have created a healthier market instead of financial support of less than 0.3 eurocent (500 million euros/160 billion kg) and a market in continuing imbalance.

Cessation support is the least restrictive form of market regulation imaginable. The market remains intact throughout the process and is left in a healthier condition than before. Intervention buying is a significantly greater threat to the free market. Goods are removed from the current market, but they continue to influence prices because at some point, the stored goods will be sold again. Moreover, intervention also keeps unprofitable farms alive, which will anyway be closed down by the market in due course.

Based on the above calculations, the National Association of Danish Dairy Farmers encourages the Danish Minister for Environment and Food Esben Lunde to reconsider the Danish view on intervention as well as measures for cessation and supply reduction within the milk sector. A slowdown of the bankruptcies and forced sales taking place in Denmark is the need of the moment.

*Kjartan Poulsen, LDM Denmark*

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## Phosphate Rights in the Netherlands

**The longest April Fools' prank in the Netherlands under the heading "milk as much as you want from 1<sup>st</sup> April 2015" ended on 3<sup>rd</sup> March 2016 with a new quota system for milk producers and shall go down in history as the most expensive joke at the expense of Dutch milk producers.**

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### **Derogation conditions**

In 2002, the Dutch government negotiated derogation conditions with the Nitrates Committee in Brussels. It was decided that the Dutch livestock sector would not exceed the 2002 level of phosphate production: 172.9 million kilograms. However, soon after the abolition of the milk quota, the production of phosphate from animal husbandry did exceed this limit due to the growth of the dairy herd. On 2<sup>nd</sup> July 2015, it was announced that dairy farmers would get so-called "phosphate rights". On 3<sup>rd</sup> March, Mr. Martijn van Dam, State Secretary of the Dutch Ministry of Economic Affairs – which is responsible for agriculture - further explained in a letter addressed to the parliament how he plans to implement this new kind of quota system. The letter also clearly states that the State Secretary does not take any responsibility for the mismanagement of the Ministry of Economic Affairs in recent years.

### **Responsibility**

Lobbying very hard for the abolition of the milk quota system while lagging behind on necessary regulations to prevent phosphate production from exceeding the limit value makes the Dutch government directly responsible for the problems that have arisen from this indifference.

### **Legal consequences**

The dairy sector has to reduce phosphate production by 4%. The Dutch government has to take action rapidly in order to keep the current derogation and prevent measures from 'Brussels'. The State Secretary, however, suggests starting with a generic system of phosphate reduction in 2017, to be completed by 1<sup>st</sup> January 2018 (farmers who go out of business must give up at least 10% of the phosphate rights allocated to them).

The DDB is of the opinion that it is too late for this approach. The Dutch government has to report to the Nitrates Committee on the current derogation by mid-2016. If the Netherlands fail to meet the conditions of the agreement, they will have a legal problem. Recovery efforts through a generic reduction in 2017 will therefore come too late and be insufficient to show 'Brussels' that the Dutch government has taken all necessary steps to fulfil their legal agreements.

The landscape of the Dutch dairy sector is set to change - all due to mismanagement on the part of the government, the dairy industry and some so-called "interest organisations for milk producers", who in their greed have damaged our sector forever.

*Sieta van Keimpema, President Dutch Dairymen Board*

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## **The European Commissioner and the Ministers "live on another planet"**

## **Milk price: European dairy farmers have lost 30 billion euros in 18 months, of which one billion in Italy.**

*Press release by APL, 15 March 2016*

At today's meeting of the European Milk Board's Executive Committee, measures to address the ongoing dairy sector crisis are to be discussed. Even producers are trying to grapple with the tragic economic circumstances on farms in different countries, where prices paid to producers have dropped drastically in the past months - something that is linked, together with other factors, to the increase in production volumes. To prevent the sector from collapsing, drastic measures must be implemented. European milk producers have lost 30 billion euros, of which one billion in Italy alone!

### **Our organisation proposes the following measures:**

1. Creating a framework for a strong grouping of supply, notably in areas that do not fall under protected designation of origin (PDO), which represents 40% of milk produced in Italy today.
2. Industrial facilities to diversify supply, with a clear focus on research and innovation to develop new products.
3. Supporting sectoral projects to create certifications for 100% Italian products.
4. A financial plan for advance payment of 5 years' worth of CAP subsidies at reduced interest rates, with the participation of the banking system and supported by public guarantees.
5. Market studies that attest for the production costs incurred by producers.

### **At national level, we propose the following:**

1. A monitoring body for the dairy market, which would have the necessary intervention tools to guarantee milk prices, where the real production costs for each individual actor in the value chain are considered.
2. Establishing a protected designation of origin for milk (PDO Italian milk) - and not just for processed products.
3. Supporting brands which process only Italian milk as well as sectoral projects which insure traceability.
4. Labelling of Italian cheese and cheese products, made solely from pure ingredients (raw milk and pasteurised milk). Making it difficult to use chemical products to produce derivatives without milk.
5. Awareness-raising campaign to promote the importance and value of food when purchasing and consuming milk products.
6. Revising production schemes for Grana Padano and Parmigiano Reggiano, aiming to thus increase the production of long-cured cheeses, which would stabilise the critical market situation.
7. Phasing out the Milk Reserve Fund and cutting 70% of the contributions to be paid for the super levy of the milk marketing year 2014/15.

On European level, we ask that the "Market Responsibility Programme" proposed by the European Milk Board (EMB) be implemented.

We are against the EU's proposals for a double price system and a slaughter premium.

*Roberto Cavaliere, APL Italy*

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## Thank you! - Donation drive for micro-dairy in Burkina Faso

In support of a micro-dairy in Burkina Faso in West Africa, we have received **€1,210 in donations** to date. Thank you very much!!!

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In 2015, a joint project with Oxfam-Solidarité to support a micro-dairy in Ouahigouya was born. The aim is to strengthen local milk production with technical and financial support. A small truck to pick up and deliver milk and the purchase of packing machines and materials are among the activities that will be financed.

Furthermore, exchanges between Burkinabe and Belgian milk producers is also going to play a key role. The dairy itself commits to set up a fund that will be used to help the association's other small dairies as also to pass on the technical know-how received.

**You can still donate to this project and can help set an example: We want to support local milk production in Africa and we do not want to destroy it with exports!**

### Donation button

**Account number:**

**IBAN:** BE42 3630 5233 2954

**?BIC:** BBRUBEBB?

**Payment description:** Burkina Faso

**Account holder:** Milcherzeuger Interessengemeinschaft asbl

*Erwin Schöpges, MIG Belgium*

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