## Dear dairy farmers and interested parties,

As we go deeper and deeper into the crisis, we can see that it is crucial to really do something about the oversupply of milk that is putting so much pressure on the prices.

To those who say that such a policy signifies a lack of confidence in the post-quota EU dairy sector, I would make one simple point: it's high time that people stopped conflating the interests of the dairy sector and the dairy farmers. The 'sector' is doing very well, thank you. We can all read the analysts' reports and the company accounts. It's a radically different story for the people actually providing the milk that is the basis for all that profit and optimistic forecasting; those people – at least here in Ireland - have now gone well over a year earning nothing from their work and investment - and in many cases are actually losing money. So as far as ICMSA is concerned, it's time that we concentrated a little more on the dairy farmers – the foundations of the sector – and perhaps started worrying a little less about the processing, corporate and retail elements. God knows they don't seem that worried about us.

*John Comer, EMB board member and ICMSA president, Ireland*

### EMB Newsletter August 2016



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## No consequent action to combat the crisis in the dairy sector

Producers on the dairy market are under exceptional pressure. The prolonged crisis with continuously sinking milk prices has dairy farms across the EU at the end of their tether. It was therefore key that yesterday's Agriculture Council decided on radical measures to reduce overproduction on the market.

However, the measures adopted on 18 July are not going to provide the urgent reorientation the sector needs. Instead of taking a consequent EU-wide approach, which would offer all producers the possibility of voluntary production cuts, 350 million euros of the total 500 million package, that is, the majority was allocated to measures that are not clearly defined.

Romuald Schaber, President of the European Milk Board (EMB), is disappointed: "Production cuts is the label used to describe the current package of measures. However, no one wants to take a crack at their proper implementation. Merely 150 million euros shall be used for measures to reduce production. This amount is not nearly enough in light of the severity of the current crisis."

### *Too short a reduction period and no simultaneous capping*

Furthermore, while the envisaged reduction period of 3 months during which willing producers will receive financial compensation is too short, there is no simultaneous volume capping for other producers. Therefore, there is a great risk that the achieved reductions will be neutralised by increased production by other producers and the effect on milk prices will be minimal or insignificant. The equivalent 14 cents to be paid for each litre of milk not produced is not enough of an incentive either. This compensation has to be higher in order to generate enough willingness and bring about sufficient volume reduction on the market.

"With prices that are sometimes below 20 cents per litre of milk, we are facing an acute and significant crisis in the dairy sector in Europe. This crisis must be combated with consequent and clear policy," says Schaber. However, the European Commission and some Member States have been trying to ignore the consequences of this crisis for months now. Sadly, the measures adopted yesterday show that nothing has changed.

*EMB press release of 19th July 2016*

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## New Minister from Rhineland-Palatinate vetoes unanimous resolution of German Ministers in favour of voluntary production cuts

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The Extraordinary Conference of the German Federal State Ministers of Agriculture was held in Brussels on 15 July because of the continuing crisis in the dairy sector. It was attended by the Ministers of Agriculture of every federal state, Federal Minister of Agriculture Christian Schmidt, and EU Commissioner Phil Hogan.

The French Minister of Agriculture Stéphane Le Foll, who had also been invited, cancelled at short notice. The German dairy farmers' association BDM was represented at the important event by Romuald Schaber together with a delegation. Many of the federal state ministers spoke with the BDM representatives before the conference.

When the ministers' discussions were over, it turned out that the conference had ended without a resolution. It failed because of the Rhineland-Palatinate Minister of Economy, Transport, Agriculture and Viticulture, Mr Volker Wissing. He had vetoed the resolution for a system of voluntary production cuts, arguing that he did not want a return to the milk quota, and so they were unable to reach the required unanimity. Wissing had voted against the measure, which had the backing in particular of the six green federal state Ministers of Agriculture, the SPD Minister of Agriculture from Mecklenburg Vorpommern, Mr Till Backhaus, and the CSU Minister of Agriculture from Bavaria, Helmut Brunner.

Mr Till Backhaus was visibly shaken. Backhaus knows the dairy farmers' situation: "It ceased being about financial bottlenecks a long time ago, it's about professional survival and personal tragedies".

And Romuald Schaber, President of the BDM, reacted to the veto with shock and anger. "Given the precarious situation on the dairy farms it is a catastrophe that one single politician, new in office, can thwart the hard preparatory work of his fellow ministers and prevent any effective improvement to the dairy farmers' situation".

Concrete solutions for the current market crisis are extremely urgent to prevent even greater damage for the dairy farmers. The world market is swamped; the farm-gate milk price is rock-bottom. The forecast is that losses in agriculture will total about 5 billion euros by the end of the year. And no slight recovery in the market should belie the fact that this crisis is still far from over. Now is not the time to give up campaigning and fighting. The future of farms is at stake! The dairy farmers' considerable losses in added value also mean huge losses for rural areas.

We need a sensible, efficient crisis management instrument to be able to overcome future crises and enable swifter, more effective action.

*Nadine A. Gund, BDM*

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## Ireland: ICMSA call for Mercusor and TTIP trade deals to be suspended immediately pending Brexit clarity

In the context of the ongoing uncertainty surrounding Brexit, the President of ICMSA, John Comer, has called for the EU to immediately suspend negotiations on Mercusor, TTIP and other possible trade deals until such time as the implications of Brexit are clearly recognised and can be accommodated in any future trade deals.

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In addition, Mr. Comer said that all existing trade deals - including previous WTO deals - will have to be reviewed and amended to take account of the UK exit from the EU.

The ICMSA President said that the implications of Mercusor, in particular, could be extremely negative and significant for Irish farmers and it is simply inconceivable that negotiations can continue in the fog of uncertainty and confusion surrounding Brexit given the direct implications regarding possible tariff reductions, concessionary imports and sensitive product status, all of which will be directly influenced by the UK’s post exit relationship with the EU.

In relation to existing trade agreements, Mr. Comer noted that previous trade deals had contained significant concessions to certain third countries to take account of their historical trading relationship with the UK and the trade deals were based on the UK being part of the EU. He said it would be totally unacceptable that these concessions be continued following Brexit and, logically, the trade deals will have to be amended to take account of the new reality. As an example he cited New Zealand lamb and he went on to observe that Irish farmers are facing enough uncertainties following Brexit without having to compete with products on EU markets whose presence was based on concessions relating to a historic New Zealand-UK trading relationship.

He concluded by noting that the Brexit vote has thrown up an amount of hugely significant issues with implications for existing and future trade deals that will need to be clearly and fairly addressed as part of the new reality.

*ICMSA press release*

## Current cost calculations still show disastrous shortfall in cost coverage in milk production

Except for the lack of paranormal assailants like zombies or ghosts, the current situation of milk producers all over Europe could have been taken from a horror movie: disastrous price reporting month on month; the gap between production costs and farm-gate price continues to widen and families on dairy farms live in fear of this very real threat to their existence.

As the figures from April for milk production in Germany show, an average price of 25.78 cents does not even cover two-thirds of production costs which are over 44.60 cents per kilogramme of milk.

These figures are complied every quarter by the Büro für Agrarsoziologie (BAL) and are then published jointly by the MEG Milch Board and the European Milk Board (EMB).

Cost analyses for other European countries show that this is neither a temporary problem nor a situation limited to Germany. For example, costs figures for Denmark and the Netherlands at the beginning of the year clearly showed how even countries with large farm structures are facing a constant deficit in milk production costs. With average costs of 41.70 cents in 2015, Denmark suffered losses of over 10 cents, while the deficit for Dutch producers with costs of 44.50 cents was almost 14 cents per kilogramme of milk. In fact, prices in the Netherlands in recent years have never been high enough to fully cover costs.

"This constant shortfall in price coverage means that farmers must subsidise their production out of their own pockets. To make this possible, they do not pay themselves for the work they put in and take on loans to salvage their milk production and farms for the time being," says Romuald Schaber, President of the EMB, describing the immense pressure faced by dairy farmers. When even this fails, many farms abandon milk production. Schaber says that this raises a very urgent question: "Can we really treat those producing our food so unfairly and allow production in many regions of Europe to simply disappear?"

While it is obvious that the answer to this question is 'No', the next question about options to address these unfair conditions is also self-evident. "To bring prices to a fair level, the volume of milk on the market must be reduced," outlines Schaber as the solution for the dairy sector. "Producers willing to reduce their production volume should receive financial compensation. After all, they would be contributing to stabilising the market, which would benefit all producers in the form of higher prices."

There are many voices calling for these voluntary production cuts at EU level in order to pave the way for the dairy sector out of this horror story - they include ministers of many EU Member States, MEPs and members of the Committee of the Regions. "It is absolutely essential that the European Commission also joins this camp," says Schaber.

***Background:***

The European Milk Board (EMB) and the MEG Milch Board jointly commissioned the Büro für Agrarsoziologie & Landwirtschaft (BAL) to carry out a cost analysis to calculate milk production costs across Germany. This study is based on data from the European Commission's Farm Accountancy Data Network (FADN), which is further complemented by price indices for agricultural inputs like feed, manure, seeds and energy from the Federal Office for Statistics. It also factors in wages for labour done by farm managers and family members.

To build on this study, the MEG Milch Board developed the Milk Marker Index (MMI) that documents the actual evolution of production costs (with basis year 2010 = 100). For April 2016, the MMI was at 107 points. The MMI is published every quarter along with a price-cost ratio, which shows the relationship between officially recorded raw milk prices paid to producers and milk production costs.

*EMB Press release of 15th July 2016*

## Critique of professors' assessments on the German dairy market

*In a publication of the Kasseler Institut für ländliche Entwicklung (Institute for Rural Development, Kassel, Germany), Prof. Onno Poppinga severely criticizes the arguments put forward in the document "Reintroducing milk quotas is not a sensible agricultural policy instrument" by nine German agricultural economists. Here is an extract from Prof. Poppinga's critique:*



1. The professors use an unsuitable theoretical approach. Throughout the opinion, arguments are made using market economy terms; when analysing the relationship between milk producers and dairies, it needs to be looked at as a supply relationship rather than a market relationship. Buyers (above all: food retailers and wholesalers) obviously know that dairies only "invoice" for milk but do not actually buy it. Therefore, dairies have a very weak negotiating position.

2. Contrary to the arguments of these professors for agricultural economics, the demands to change the legal basis regulating the relationship between milk producers and dairies, so that milk producers can come together in producer cooperatives and thus negotiate with dairies about volumes and prices, is not a "leveraging of the market" but is the creation of a market for the very first time. It is also factually incorrect to label such milk producer associations "inadmissible under competition law": Competition law expressly intends for such producer cooperatives in agriculture with the envisaged right to determine common rules for volume, price and quality.

3. As a counter-argument to solving the issue of surplus milk by reducing the produced milk volume, the professors present the following statement: "A reduction in feed intensity is contentious from the point of view of animal physiology as it could lead to animal health problems." This argument is not sound. Example: Substituting the currently used "milk replacements" in calf rearing with whole milk, decrease in use of feeding stuff (cereals, soya) and replacement by staple feed.

4. The statements of the agriculture professors about the effects of the current drop in price for milk producers are vague and fail to take the economic problems on farms into account.

5. The agriculture professors present "moral" arguments against the appeal to solve the problem of surplus milk by reducing production: "Irrespective of the fact that it does not make sense, creating an artificial scarcity of food..." Counter question: What sense does it make to produce more food when there is no additional market capacity and when public funds have to be used to provide for things like storage and liquidity loans?

6. However, we must agree with the statement that "current discussions in the media about the tense situation on the dairy market ... hardly go beyond looking for short-term solutions to solve the problem." Nonetheless, the arguments presented by the 9 professors do not really contribute to a sustainable solution for the future either. The basis of their proposal is to continue to push the industrialisation of dairy farming even further; direct payments should be paid to farmers for conditions such as summer grazing of cows, grass-fed milk, hay-fed milk only in areas where niche markets are developed and special "environmental conditions" are required. On the contrary, it is clear that further industrialisation is not going to solve the problems experienced to date: Dairy farms continue to have no influence on suppliers; cows already spend the whole year in stalls (which are overcrowded due to reasons of cost) and this will happen on a larger scale; increases in yield will force dairy farming to compete even more fiercely with food production for human consumption; a higher density of cows in large stalls will also worsen issues linked to excess dung and environmentally harmful gases.

*Prof. Dr. Onno Poppinga, Institute for Rural Development Kassel, Germany*

For the complete document "Critique of professors' assessments" by Prof. Poppinga, click here *(in German)*

## German and African dairy farmers: "You aren't a dairy farmer, you are a milk powder salesman"

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*"You aren't a dairy farmer, you are a milk powder salesman," says the young owner of a dairy in Bobo-Dioulasso in Burkina Faso confidently, as he greets one of the German participants with a firm handshake. This remark really captures the essence of our trip to Burkina Faso.*

We are here to see how European milk powder and the European export strategy are affecting Burkina Faso. 'We' stands for a delegation from the European Milk Board, an umbrella organisation for European milk producers, as well as representatives from German non-governmental organisations.

Even in Burkina Faso, a country with 10 million cows and around 17 million inhabitants, milk production, production conditions and producer prices are controversial issues. Milk production is key to the survival of traditional Peulh cattle herders. At the same time, there is an increasing amount of milk powder exerting pressure on the world market as also here in Burkina Faso since the end of milk quotas in Europe. Every year, Burkina Faso imports milk powder worth some 130 billion CFA francs, which is equivalent to 198 million euros. Furthermore, imports of enriched milk powder have increased in the last five years by over five thousand tonnes in Burkina Faso alone.

In Ouagadougou, we meet Korotoumou Gariko. This energetic woman is the pioneer of micro-dairies in Burkina Faso. While she has been producing and processing milk since 1987, she founded the "Milk Round Table" in 2001 together with other women producers, so that they could increase their sales. Milk production here is completely in the hands of the women; they produce 95 percent of Burkinabe milk. "As milk production started to become lucrative, all of a sudden men were also interested and wanted to become members of our cooperative. But we were able to stop that," she laughs. It is important to the women to remain independent. As they can now provide for their families, their social standing has improved. When asked about milk powder imports, Korotoumou Gariko cannot hide her anger: "Our policy is going in the wrong direction. Milk is now only traded on the international market. In this way, Burkina Faso is putting its food security on the line. Policy should promote the milk sector as a whole, so that all milk producers can increase their production and receive good prices. That becomes impossible if we have to compete with cheap milk powder from Europe." This powder is already sold at half the price of local milk; we found little bags of it all over in markets and kiosks. Milk made from milk powder and vegetable fat costs the equivalent of 34 cents, while local milk costs between 76 cents and 1.10 euros.

Milk producers Christoph Lutze and Johannes Pfaller who came with us to Burkina Faso were asked time and time again why they were on this trip. "We do not want our problems to be exported. Europe has to do something to regulate milk volumes. Those who hamper the development of other countries, hamper their own development as well," says Johannes Pfaller. Back in Germany, he has a farm with 120 cows, 100 hectares of land and producers about a million litres of milk every year. Since the 2009 milk crisis, Johannes Pfaller has been active in the Bundesverband Deutscher Milchviehhalter (BDM). Dairy farmer Christoph Luzte from the north of Germany nods in agreement to his colleague's comments. "It is important for me to get to know Burkina Faso's dairy farmers - I want to see with my own eyes what their lives are like." Many here in Burkina Faso cannot believe that more and more farms back in Germany like Lutze's with 160 cows have to fight to survive.

*Kerstin Lanje, Misereor*

*Excerpt from the blog of Kerstin Lanje (Misereor) - you can find the full text in German here:*

If you would like one of the delegation participants to speak at an event for milk producers, please get in touch. You can contact the EMB office or Mr Johannes Pfaller directly.

## You can find us on Facebook

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