Dear dairy farmers and interested parties,

For 60 years, the agricultural sector has been facing one crisis after the other, and today we can affirm that we are continually in crisis.

The industrialisation of agriculture was meant to provide solutions and most notably, revenue... Sixty years on, we have an industrial farming model that is a giant with feet of clay, characterised by chronic debt, and farmers who cannot survive without subsidies and who produce astronomic volumes of milk, meat, vegetables and food grains. Storage needs to be subsidised. Even more subsidies are required to offload these excesses on third countries (in Africa and beyond), which is a death sentence for African peasant farmers and leads to changes in local food habits. All this for the inadmissible, and not admitted, goal of tapping into new export markets. And then we wonder why millions of migrants are making their way to Europe!

A different agriculture is possible. Farmers do not only produce food. They maintain the land and fulfil a social function. In fact, our cities are built in concrete, glass and steel; they are increasingly dehumanised, leading to abnormal social developments: loneliness, depression, schizophrenia, etc. Thinking that farmers should be compensated for all the other contributions they make to society, in addition to producing food, is not really a stretch. Agriculture can be a source of employment, of energy production and can be an activity that creates a link between people, thus giving purpose to each person's life. Agriculture can be all this, and much more.

?The upcoming reform of the Common Agricultural Policy must choose between these two paths: It can promote the industrialisation of agriculture which will lead us straight to a planetary "Chernobyl", or it can reorient toward small-scale farming which will, once again, place people at the centre of society and will lead us to El Dorado.

Boris Gondouin, APLI France

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Appeal to the EU Council, Parliament and Commission: Adopt the Parliament's proposal regarding the “Omnibus” Regulation!

We all saw that the voluntary supply reduction in 2016 and 2017 was effective. You can imagine not only us farmers but also EU policy-makers breathing a sigh of relief when it finally put a stop to the constant slump in prices.

But the voluntary production reduction scheme should have come about a lot earlier. It was clear much earlier on that intervention and private storage would not suffice with such a severe distortion in the market. It is also evident at present that large volumes in storage create problems in the long run. To avoid mistakes like this in future, the principle of voluntary supply reduction ought to be enshrined in EU legislation on agriculture.

There is a proposal from the European Parliament to this effect concerning what is termed the “Omnibus Regulation”, which is currently being discussed in the trialogue between the EU Council, Commission and Parliament. The Parliament proposes a new article 220a *"Voluntary production reduction scheme"* to be inserted in Regulation (EU) No 1308/2013. The European Milk Board calls on all parties involved in the trialogue to adopt this proposal and enshrine it in the applicable legislation. This is a matter of nothing less than creating confidence in a sector severely battered by crises in recent years.

“Commit yourselves to a responsible policy and to your farmers.
Enshrine the instrument in law so that it is not just applied at will or even not at all, but is really implemented when the market needs it. And the market will need it!”

EMB press release of 20.07.2017

Belgium criticises French project in the dairy sector

© pixabay

It is very understandable that some EU Member States search for their own ways of overcoming a deadlock if the EU lacks to put into place stabilising policy measures.

For instance, last year, France introduced an obligation for processors to label milk and dairy products so that consumers would know in which country the milk they buy has been produced and processed. Following this initiative, Belgian minister of Agriculture Willy Borsus complained, referring to the consequences of the measure for his country. According to the Belgian minister, trade with milk between Belgium and France has dropped by 17 percent since the introduction of the new labelling requirements and contracts for the sale of milk and milk products are now rarely renewed. His French homologue, Stéphane Travert, defended the labelling requirement as a measure increasing transparency for consumers and rejects his Belgian neighbour's criticism. According to Travert, the project has been running for a few months only and it is thus difficult to already have reliable data on its possible effects.

The conflict between the two countries clearly shows the importance of solving the problem in the dairy sector with stabilising policies *on EU level*. As a matter of fact, crises such as the ones the dairy sector has undergone repeatedly in the past years create negative tensions between EU Member States. Efficient crisis instruments on EU level would thus not only stabilise the milk market, but also play an important role in generally strengthening cohesion in the EU.

Silvia Däberitz, EMB director

Brexit is setting a CAP ‘trap’ and the Commission must not fall into it

© wikimedia

The reports circulating that the weight of the reductions to the EU budget that will result from the disappearance of the UK’s contribution will fall on CAP are profoundly alarming. In terms of economic impact and positive multiplier effect there’s no disputing the fact that the EU’s Direct Payments are the most significant factor in very large areas of our State.

Thankfully, informed commentary has long since moved on from the silly ‘cheque-in-the-post’ caricature that distorted the public’s perception of what CAP was and how it functioned. Most people now realise perfectly well that the direct payments made under CAP represent the EU’s recognition that in a context where the EU itself is unable or unwilling to force food corporations to pay farmers and primary producers a fair price that it is incumbent upon the EU to make up the difference. The direct payments are effectively an admission on the part of the EU that it will ‘top up’ the wholly insufficient prices that the corporations pay the farmers in the absence of any regulatory interference or pressure by the EU. The EU’s policy is one that demands ‘cheap food’ where the supermarkets in the great cities can sell highest standard food at artificially cheap prices with the retailers being able to use their enormous commercial clout to dictate the price backwards to (literally) the cow without any even token protect by the EU. What was important is that the urban consumers can get excellent quality at the cheapest prices and the difference between the lowest prices the retail corporations were able to get away with paying and the farmers being able (to just) about keep going was the direct payment under CAP. I’ve pointed this out before but I’m going to repeat it: direct payments under CAP were not a subsidy to the farmers, they were - and are - a subsidy to the retail corporations that enable them to underpay the farmers and undercharge their customers.

It’s a little ironic that the Member State that was most vociferous in its support for the ‘cheap food’ policy and its disdain for the compensatory CAP regime was the UK. Their withdrawal from the EU and the reduction in the overall budget by their approx. €11 billion per annum will have serious implications for the EU budget – we accept – but the idea that CAP and the direct payments made under it will have to be cut as part of the reduced budget actually means that Brexit will end up ‘double-penalising’ Ireland and that ICMSA does not accept.

Two of those easily predictable consequences of projected cuts are the acceleration of the already alarming haemorrhaging of people out of indigenous EU farming and primary food production. In other words, what’s left of mainland EU’s family farm system will disappear and we will see a ‘corporatisation’ of farming and food production. Cuts to CAP and direct payments will also see a significant spike in food inflation as farmers try desperately to recoup the income loss by demanding higher prices for their produce, in doing so they will run straight into the ‘cheap food’ policy tacitly and jointly operated by the retail corporations and the Commission. The resulting chaos - social, political, economic and regional - can only be guessed at and feared.

The two greatest achievements of the EU were eliminating the possibility of conflict within its Member States and the provision of food produced to the highest standards on the planet and available at cheap prices to its population. That second achievement is the one with day-to-day practical resonance and CAP is the means by which it is possible. Diminishing CAP means diminishing that achievement and perversely confirming the arguments of the anti-CAP Brexiteers.

John Comer, President ICMSA Ireland

Hearing of experts in the Bavarian Parliament: BDM stimulates debate on fundamental orientation of CAP

© BDM

The further development of the Common Agricultural Policy (CAP) after 2020 was the subject of the meeting of the Bavarian Parliament's Agriculture Committee, at which experts from agricultural associations, the federal government and the EU were heard.

As representative of the German Dairy Farmers' Association BDM, Hans Foldenauer explained that the hitherto strong focus of the CAP on distributing agricultural funds to farmers was no longer sustainable in its current form. It had made agriculture dependent on public funding and also entailed huge expenditure on red tape and monitoring. An economically sustainable development of farms cannot be achieved with these payments – not least because market crises cannot be prevented, either.

In fact, the main beneficiaries of agricultural funds are export-oriented conglomerates in the food and dairy industry. To make agriculture globally competitive, the agricultural policy banks primarily on cost leadership. The associated pressure on prices is nowhere near compensated by direct payments to producers, exerting huge pressure on farmers to intensify and causing them enormous economic problems. That is why fewer and fewer potential next-generation farmers are ready and willing to carry on the farms, because of the poor economic prospects. "On the other hand, for the export-oriented conglomerates in the food and dairy industry the CAP has so far been a cash cow. Their purchasing of raw materials has almost been artificially made cheaper by the supporting of dairy farmers with public funding", Foldenauer explains.

Hence to make the EU agricultural policy socially fairer and fit for future purpose, in the further development of CAP 2020 the focus has to be on a functioning common organisation of agricultural markets (CMO). Re-adjusting the future distribution of agricultural funds solves no problems, and even makes them worse, according to Foldenauer. In the view of the BDM, it is crucial that the farmers' main source of income must in future return to that of revenue from the sale of agricultural produce. This calls for a strong common organisation of agricultural markets. In addition the CMO must be extended by effective market crisis instruments. It is vital that, in the future, crises can be prevented by countering them early on and quickly restoring market balance. The combination of the 2nd EU aid package with time-limited supply discipline proved that there are efficient options available.

Foldenauer summarises thus: "If the farms' main income can be achieved primarily through revenue from the sale of produce, and direct payments no longer make up some 50% of the farms' income, the CAP offers genuine opportunities for shaping a resistant, diverse agriculture with a future that can also afford its numerous tasks in climate and environment protection, animal welfare and food security."

Press release of the German Dairy Farmers' Association (BDM), 07.07.2017

Current milk production costs for Germany: 42 cents/kilo of milk

Since 2012 there has been a realistic method for calculating milk production costs in the dairy sector. The German Office for Agriculture and Agricultural Sociology (Büro für Agrarsoziologie, BAL) takes official EU data to work out the costs of producing a kilo of milk and puts them in proportion to the farm-gate price at the time. Here are the latest figures for Germany:

© wikimedia

As the calculation shows, work input is also included in the production costs of 42.00 cents/ kilo of milk in the shape of an income rate. “Unfortunately there are also other methods of calculation that either only partially include or do not include at all the work input of the farm manager and of his family members in the costing”, Romuald Schaber, President of the European Milk Board (EMB), points out. “It’s as if the labour is worth little or nothing at all.” He says this often creates a distorted picture of what the production of milk costs. “Unfortunately this means dairy farmers often feel forced to put very little value on their own work”, is Schaber’s criticism. But this is misguided. “Because a lot of work goes into producing milk, and operating a dairy farm requires a wide range of know-how – from arable farming and animal husbandry, through using and servicing sensitive machinery, to the business management of the farm.” The BAL costing is based on collective bargaining agreements in the agricultural sector and considers this rating of the worth of a farm manager’s work as 20 - 22 euros/hour (gross) to be realistic.

The price/cost ratio, which indicates the extent to which the milk price covers the production costs, shows a figure of 0.81 for April. This means that only 81 percent of costs are covered. Schaber says that is extremely problematical for the milk sector. “Let me ask this question: dairy farmers produce a vital staple of the highest quality, they are constantly developing, run a relatively high risk of professional injury, and keep the countryside alive with their work. Should there really be a figure of minus 19 per cent on their payslip?”, Schaber ponders.

This situation is not restricted to just Germany. In other EU countries, too, prices remain well below the cost level. It is true that a EU-wide reduction in production has eased the market slightly compared to the previous year. But with prices of, say, 32 cents in France and 35 cents in Denmark, the milk production costs of above 40 cents are not covered in those countries either. The EMB proposes stabilising the market through a crisis instrument and thus ending the undercoverage of costs. Schaber: “This crisis instrument called the Market Responsibility Programme (MVP) can help us become a sector with a future – a sector in which young people can carry on running dairy farms instead of having to leave them in droves, as they now are.”

EMB press release of 17.07.2017

Austria: Berglandmilch threatens to stop buying farmers’ milk

© EMB

Outwardly, calm has been restored. Internally, the dairy sector is still seething – with old bills, disputed contracts and small farms' struggle for survival. The background: in the spring, 37 farmers had no buyer for their milk.

They had joined the milk rebels of the *Freie Milch* (Free Milk) initiative, which was seeking to strike out on its own in marketing milk away from any co-operative – and was a financial flop. The return of the renegades to the established dairies became a nail-biter: Berglandmilch, the market leader in Austria along with Schärdinger, relented at the last minute and took twelve farms under its wing – but on highly unconventional terms. A clause in the contract, which the STANDARD has seen, says that Berglandmilch can stop buying a supplier's milk immediately if the latter is guilty of "damaging media reports".

No comment

The contract is limited to a term of one year, which is equally unusual. To be allowed to carry on supplying milk, the farmers have to ask for an extension in about seven months. Financially they are considerably worse off compared to established suppliers. They receive no mark-up for organic milk. For a kilo they are paid 20 cents gross less than other organic farms and 4.2 cents less than conventionally run farms. The farmers concerned were not prepared to make any comment. However, farmers who had seen the contracts but were taken on in time by other dairies such as NÖM, which limited markdowns to just three cents, said it was not possible to survive on the Berglandmilch price. They talk of organic farms that now feel forced to give up dairy farming for good, because producing milk does not pay. Their precarious position is exacerbated by the long drought: feed has to be repeatedly bought in.

"Market dominance"

Wolfgang Pirklhuber from the Greens talks of a "disgrace for the co-operative system", which he feels is in need of more democratic fresh air. "The biggest co-operative is behaving in the most divisive manner – the motto being "take it or leave it". Smaller co-operatives are acting much more fairly." He had never encountered the expression of opinions being contractually restricted: it shakes fundamental rights to the core, he says. For Ernst Halbmayr, a co-founder of Freie Milch, the terms offered to the former rebels by the dairy giant are only possible because of its "market-dominating position". Jakob Auer, President of the Farmers' Union, had often pleaded for contractual penalties for the returnees. Many hope that his successor Georg Strasser will be more sensitive to the delicate issue. Berglandmilch itself has always stressed that its first obligation is to its own long-standing members, some of whom still had to subscribe to shares.

Verena Kainrath, Der Standard, 11th July 2017

When JEFTA comes, farmers will have to go

At the beginning of July, the EU and Japan announced that they have agreed on the basic principles of a free trade agreement (JEFTA). The provisions of the agreement are scheduled to enter into force in early 2019.

In Japan, the issue of JEFTA and agriculture has become a sticking point. Japan is the fourth-largest economy in the world. It is home to almost 127 million people. The European agro-industry and its representatives in the political sphere and in associations essentially see Japan as a market for Europe's milk and meat product surpluses. However, wine exports to Japan are also set to increase.

Current trade agreements already allow Europe to export significant amounts of pig meat to Japan. Furthermore, Japanese customs duties make pig meat from the world market 67 percent more expensive, which clearly limits exports. Duties on beef, in fact, are 93 percent. The EU barely exports any beef to Japan. In the dairy sector, Japan is mainly interested in European whey.

Duties on the latter are going to be abolished - a blow to the local dairy sector in Japan. Just a few days before the summer solstice, the Japanese dairy policy, the "Livestock Stabilization Act", was amended. "The new law will enter into force in April 2018," reports Shushi Okazaki from the Japanese farmers' organisation Noumiren. Okazaki goes on: "The amendment will allow dairies to suppress producer prices." For now, milk sales are managed at regional level. Producer prices are negotiated by organisations with dairies and supply and demand are matched when necessary. The new dairy policy will weaken these structures. "As a result, the income of most milk producers in Japan will drop. This will probably lead to farms closing down," says Okazaki.

"The AbL stands firmly with its Japanese colleagues. A trade agreement with the EU cannot lead to farming structures in Japan being put under such tremendous pressure," notes Elisabeth Waizenegger, a dairy farmer on the federal board of the Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL). According to Waizenegger, this is also detrimental to European milk producers and their interests: "This policy presents no advantages for farmers here either - quite the contrary. The latest EU dairy sector reform has led to small-scale milk production in Germany currently being at the brink of collapse, to make way for industrial production structures. The one-sided European focus toward the world market is to blame. Only the dairy industry, which exports mainly mass-produced goods, profits from JEFTA and the like."

The most recent agreement documents leaked by Greenpeace suggest that JEFTA would include a mechanism for investor dispute settlement. This system was already heavily criticised in TTIP and CETA. Furthermore, the precautionary principle is only mentioned in the chapters where it is not supported by any sort of implementing mechanism, but is not anchored in the decisive chapters. This means that this agreement could lead to a drop in farming standards and production quality as well.

"The AbL demands that German policy-makers act immediately to bring about a turnaround in European trade policy. The AbL calls for the trade of high-priced quality products under fair conditions that allow for value creation," says Waizenegger.

Berit Thomsen, AbL Germany

The European Milk Board calls on Agriculture Commissioner Hogan to stop selling storage stocks at junk prices

On June 20, the European Commission approved the sale of a further 100 tons of skimmed milk powder from public intervention storage at a price of €185/100kg. According to the European Milk Board, these sales at below-value prices negatively affect the European and international dairy market.

Furthermore, this action clearly contradicts the European Commission's own statement: *that selling at all costs was never an option for the Commission and that the maintenance of market balance and price recovery remained its main objectives.*

Romuald Schaber, President of the European Milk Board, is dismayed by this sale of intervention milk powder: "This is a stab in the back for Europe's milk producers and a devastating sign to other actors in the dairy market. Milk buyers are free to continue speculating with cheap powder." He added that milk prices, which are slowly recovering, will end up being suppressed again.

Milk powder from intervention should only be sold at a price that would not undermine price stability. Starting with production costs of over 40 cents per litre of raw milk, which is the case in countries with a high degree of intervention like France, Germany and Belgium, and adding transport, processing and marketing costs, we arrive at a price threshold of at least 335 euros/100kg milk powder. In order to reduce the enormous powder stocks of about 350,000 tons, other sales channels could be considered, for example, its use as animal feed.

"The Commission should learn from past mistakes and finally understand that intervention cannot bring sufficient stability to the dairy market," continues Schaber. If milk prices remain at the current low levels, dairy farmers will continue to produce milk in order to prop up their cash flow and storage will continue to fill up. The past has also shown that only the EU volume reduction programme had a real effect on milk prices because it directly attacked the issue of overproduction. The EU would be well-advised to implement volume reduction instruments in a timely fashion in the future, instead of simply taking surpluses of the market temporarily and thus delaying a real solution to the problem.

After Agriculture Commissioner Hogan trivialised the problem of skimmed milk powder stocks and pointed to historically high fat prices, the European Milk Board has addressed the Commissioner directly in a letter sent out yesterday: *“It is important to look at how SMP sold at junk prices affects farm-gate price. You are aware that it has a problematic effect, as the milk price is put under pressure and a price recovery is blocked. By putting such cheap milk powder on the market, you are also indicating that high value creation and fair prices in the dairy sector are, at the end of the day, of little concern to you. This does nothing to help the ongoing debate on fairness and sustainability in agriculture… You will realise that the high fat prices are sadly not sufficiently reflected in producer prices. Fat accounts for only half of the milk price; protein, i.e. milk powder, the other half. For milk prices to rise, it is therefore important to have an appropriate price for milk powder as well.”*

The letter to Agriculture Commissioner Hogan also clearly states that the sale of skimmed milk powder at junk prices acts as a burden on the international dairy market and that if this practice were to continue, the European Milk Board would have to consider a legal review of the same.

EMB press release of 14.07.2017

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