

## Dear dairy farmers, dear interested parties,

As newly elected member of the Executive Committee of the European Milk Board, I would like to draw your attention in my editorial on current issues in Ireland. Angers mounts as Ireland's biggest Co-op underpays on May milk price.

This latest round of price announcements by the Irish Co-ops for milk supplied in May has been controversial – specifically the 29 cents/L base price announced by Glanbia, Ireland's largest processor. Defying all the market trends and evidence and the price rises announced by the other Irish Co-ops, Glanbia announced a price that leaves it three cents per litre adrift of even middle-of-the-road paying Co-ops. In the context of the fact that April and May are peak production months in Ireland and dairy farmers would expect to produce 25 per cent of their annual production in these two months, the Glanbia decision to 'go low' meant that someone supplying them with 100,000L for April and May has been paid nearly €3000 less for that milk than the standard price paid by other Co-ops. Not surprisingly the decision caused much fury and frustration amongst its suppliers – thousands of whom are ICMSA members. The anger was compounded by the fact that the Ornu Index (Irish Dairy Board Index) translated directly across to a price of 31.4 ct/L and that price is historical in that it represents what Ornu has paid the Co-ops for product supplied. In other words, it's not 'current', it's what has already been paid. The Glanbia decision therefore represents a deliberate strategy not to pay farmers the price that the Co-op itself has received. At any time, ICMSA regards this practice as completely unacceptable but in light of the challenges presented by the very difficult Winter 17/18 and Spring 18 that farmers in Ireland have faced, it is quite astonishing. ICMSA has also reiterated our conviction that it is incumbent upon Co-ops to pay the highest base price possible; we do not accept – and we never will – the trend that has begun of paying absolutely bottom base price and then topping that up with special 'hardship' or other discretionary bonuses. Farmers do not want payment at the 'discretion' of the Co-ops, they want the highest price per litre that the Co-op can pay. And, to my previous point, they certainly want the same price as was received by the Co-op.

Reaction to Commissioner Hogan's CAP proposals was one of disappointment: ICMSA believes that proceeding with a reduced CAP budget actually vindicates the Brexiteer bogus argument that CAP was disproportionately subsidised by UK taxpayers. Reducing the CAP budget is profoundly mistaken, and Ireland would prefer the remaining 27 Member States to increase their national contributions to make good the deficit caused by the UK's departure. The threat posed to our traditional British markets casts a shadow over much of Irish farming at present but a ray of light was provided by the news that the parliaments of each Member State will have to ratify any proposed Mercosur agreement. The farmer representative groups can lobby to ensure that any Mercosur agreement that's as obviously detrimental to the interests of EU farmers as the one that's apparently being proposed can be rejected at that stage. We will work relentlessly to make sure that every member of the Irish parliament knows that the idea that the EU should import 100,000-odd tonnes of beef from South America produced out of a suspect system that is widely acknowledged to be an environmental threat of global proportions is an absurdity that cannot be allowed to happen.

*Pat McCormack, member of the EMB Executive Committee and President of the Irish creamery milk suppliers association ICMSA*

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## Contact

### EMB - European Milk Board asbl

Rue du Commerce 124  
B-1000 Brussels

Phone.: +32 - 2808 - 1935

Fax: +32 - 2808 - 8265

[office@europeanmilkboard.org](mailto:office@europeanmilkboard.org)

[www.europeanmilkboard.org](http://www.europeanmilkboard.org)

## **Drought causes discomfort for Europe's dairy farmers**

Large parts of Europe have experienced major losses due to the continued heatwave. After a wet spring in countries like Ireland, the United Kingdom and France, the dry weather is now negatively affecting pastures, hay and silage production as well as cereal and straw production. As a consequence of the drought, milk producers are missing key, self-produced feed. One can expect production costs to rise due to bought-in feed and the milk yield to suffer.

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### **Ireland**

After a wet spring, Irish producers have had to deal with many weeks of hot weather and major droughts. Due to the poor grass growth and burnt pastures, dairy farms must already forgo certain areas or use silage for feed. In addition to the lower feed quality, the milk yield is also going to shrink due to the looming water shortage. Increased consumption has led to water resources running dry. There is currently a nation-wide ban on watering gardens, filling swimming pools, washing cars, etc.

### **Germany**

The ongoing drought in eastern and northern Germany is getting worse. Fires are already breaking out in fields and forests in the east – in certain regions in the area, there has been no rain worth mentioning since April. In an attempt to address the feed scarcity, some German Federal States have allowed ecological focus areas to be used for feed. In the west, south-west and the Alps, in contrast, major damage was caused by storms well into June. The yield of this year's feed harvest is going to be well below average. The very poor cereal harvest implies a significantly lower amount of cereals for feed and thus a shortage of straw production. The production of grass silage will also shrink due to the drought.

### **France**

In the south of the country, crop farming with regular watering of crops has become the most common agricultural activity, with livestock farming, including dairy farming, gradually disappearing. In the other regions of France, milk from only pasture grazing becomes complicated, as it usually needs to be supplemented with other feed. As we see again this year, the distribution of rainfall over the year in each region, and even in each commune, depends a lot on where storms occur. It therefore becomes more and more difficult to manage fodder for animals. Stocks must be maintained throughout the year to compensate for increasingly heterogeneous harvests. Producing a litre of milk or a kilo of meat becomes increasingly complicated.

### **Belgium**

Belgium is usually associated with constant rain, however currently no precipitation is in sight. Dairy cows are suffering from heat stress, which compromises animal welfare, and eventually reduces milk yield. Milk producers are already obliged to buy in feed or dip into winter reserves. The third grass cutting will not happen, and this will probably be the fate of the fourth cutting as well if there is no rain in August and September. This in itself means smaller winter reserves. Maize yields are satisfactory and will only be lower in dry areas.

### **Denmark**

The heatwave is also causing issues in Denmark. The 'Drought Index' (Tørkeindeks) reached its peak in early July at 10 points. In comparison, the index was at zero in summer last year. The meagre grass growth without watering has only allowed for an average 1.5 cuttings to date. Watering implies more work and greater costs for milk producers. There is very little straw and some farmers are already buying from the neighbouring Netherlands. Loss of 30-50% are expected for the cereal harvest; projections for maize silage nonetheless are still positive. This bottleneck in terms of local feed is

an especially pressing challenge for organic dairy farmers.

### Italy/South Tyrol

Italy has started the growing season with a wet spring; in South Tyrol a snowy winter has provided good soil moisture. In Vinschgau, South Tyrol, a dry period of several weeks allowed for good hay quality. The driving of cattle to alpine pastures took place a little earlier this year, as plenty of vegetation was available. Dry periods alternate with rainy phases.

### Lithuania

May and June were extremely dry in Lithuania. Milk producers were unable to prepare sufficient feed, as due to the draught the second cut did not succeed to grow. This draught has significantly affected the income of Lithuanian milk producers. In addition to low milk prices, farmers also face losses related to decreased milk yields and a reduced fat and protein content of milk, which determine the raw milk price. Bottlenecks for feed are predicted for the winter season.

### Spain

In contrast to many other countries, our member association from northern Spain is reporting favourable weather conditions. The early part of the year was good for feed production as compared to the low prices in previous years. Market prices for cereals have also decreased thanks to the good harvest forecasts. We have to wait and see how the price for feed cereals evolves.

*Regina Reiterer, EMB*

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## Mountain of skimmed milk powder casts its shadow

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The EU intervention stock of skimmed milk powder, which was originally 380,000 tonnes, is slowly shrinking. Since December 2016, a total 99,805 tonnes of milk powder have been sold in 21 calls for tender. In 2017, the sales were hesitant and in small amounts, however there was greater movement on this front in early 2018. European intervention storage is still housing about

280,000 tonnes of skimmed milk powder.

The sales prices are compromising the market: Even the minimum price of €215.10/100kg set in December 2016 does not actually correspond to real production value. In March 2018, the sales price reached an all-time low of €105.00; skimmed milk powder was most recently sold at €119.50 per 100kg. The European Commission is hereby violating its own requirements – to reduce intervention stocks without distorting the market. The current market

price for skimmed milk powder is €152/100kg.

### How could it have gotten this bad?

From 2010 to mid-2015, there was no intervention buying for milk powder. The first buying for public intervention began in July 2015, when overproduction caused milk prices to hit rock-bottom. Instead of providing incentives for volume reduction, Agriculture Commissioner Hogan reacted to the crisis by extending the buying period for 2015 and 2016 beyond the usual time frame (March to September). This was the wrong signal – milk producers continued milking to compensate for lower earnings from milk

prices by ramping up production. But EU policy did not stop there: The maximum intervention volume for skimmed milk powder was doubled in 2016 from 109,000 tonnes to 218,000 tonnes, and then increased further to 350,000 tonnes.

### **Intervention is not a crisis instrument!**

It is crystal clear that intervention is ineffective in the face of chronic market instabilities and suppresses future selling prices. The European Milk Board is lobbying for a general reduction in the current intervention volume of 109,000 tonnes per year as well as a simultaneous increase in intervention price. Production must be aligned with market demand i.e. surpluses must be avoided. We demand that milk powder stocks be reduced without market distortion!

### **Use as animal feed – a possible alternative?**

French Minister for Agriculture Stéphane Travert has said that EU stocks should be reduced in other ways. His proposal: A portion of the older intervention stocks should be offloaded in parallel calls for tender as animal feed. Some of his counterparts from other countries have supported this proposal. However, Agriculture Commissioner Hogan rejected the French proposal as too complex due to "expensive control and traceability conditions."

*Regina Reiterer, EMB*

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## **Protest against EU dairy policy**

On 11 June, members of the German small farmers' association AbL and the German dairy farmers' association BDM, together with representatives from environmental organisations and politicians from the Greens, expressed clear criticism against EU dairy policy in Aschendorf (Lower Saxony). Why? Because of the milk powder stored there.

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"This facility is holding 1,800 tonnes. There are almost 300,000 tonnes in storage in the EU. It was not possible to use this volume of milk back when it was produced and it remains useless even today. All milk product purchasers obviously know that these surpluses are still on the market and can thus suppress the price of newly-produced products," says dairy farmer and AbL President for Lower Saxony Ottmar Ilchmann with reference to the resurgence of the downward trend in milk prices. He continues to explain that in the period of low milk prices during the dairy crisis from 2014 to 2016, surplus milk was converted to powder and taken off the market within the EU intervention scheme. This powder continues to be a burden on the dairy market and keeps milk prices low. "The result of misguided policies can be seen in the form of milk powder stored in warehouses like this former curtain factory," says Ilchmann. He goes on to say that this milk powder that no one needs is either stored in such facilities or "sold at dumping prices in Africa, destroying local markets."

Since the end of milk quotas in 2015, many dairy farmers in Germany and all over Europe have increased their production volume. They believed in the prospect of increased exports on the world market, as their policy-makers, dairies and farmers' associations led them to believe. But no one wanted to buy the milk powder, which was produced by cooperative dairies like Deutsche Milchkontor in northern Germany themselves in their own drying towers, and it was therefore sold to the EU.

"These storage facilities cost taxpayers dearly, and only help dairies get rid of their production that is impossible to sell and that does not correspond to market needs, with warehouse owners cashing in as well," says Ilchmann. Taxpayers

are footing the bill for millions in storage costs and the current dumping of milk powder. Furthermore, surplus milk production leads to an avoidable environmental burden due to intensification and an increased nutrient load.

Miriam Staudte, speaker for agriculture policy for the Greens in the Landtag, calls for regulation instruments in times of crisis as well because "we cannot just wait for the next crisis, we must develop instruments to prevent them." She wishes to support the kind of dairy farming society is asking for. "And that means that cows belong in pastures."

At the demonstration, it was also clear that action must be taken as quickly as possible. In the words of Ottmar Ilchmann, "Farmers are going out of business and most importantly, many are giving up. They are losing hope that the dairy market will ever come back on track, whereby it will be possible to live off milk production sustainably and in the long term."

*Friedhelm Stodiek, published in Bauernstimme on 13 June 2018*

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## Situation in Spain

The price of cow milk is decreasing once again in the fourth consecutive month in May 2018, reaching 31.6 cents. We are not happy with the current price situation, but there is a sentiment of resignation and little enthusiasm to mobilise dairy farmers. Farmers are now falling in line and looking at the meagre recovery after years of struggle, people are willing to conform.

There is uncertainty about there ever being fair prices in the future or contracted volumes actually being upheld. Furthermore, contracts do not provide much hope as we continue to sign them under pressure.

According to the latest data from the Ministry of Agriculture, raw milk deliveries reported in Spain in 2017 amounted to about 7 million tonnes, an increase of almost 2% as compared to 2016. In terms of size of dairy herd, there were nearly 850,000 milking cows in June 2018, a decrease of approximately 10,000 heads or 1.2% as compared to June 2017. The total number of farmers delivering milk was 14,231 in April 2018, 6% less than the same month of the previous year.

In 2017 there was an increase of cheese manufacturing by 17%, followed by butter (15%) and skimmed milk powder (20%). In contrast, concentrated milk decreased by 10% and fresh cream by 5%. Consumption in households increased at the same time.

Concerning the political situation in Spain, we are currently waiting for the new government to fall into place to see what proposals and direction they adopt. We will ask for meetings with the new Minister of Agriculture and discuss proposals, as well as propose our solutions and explain the sector's shortfalls and weaknesses. At the moment, we think there will not be any major changes, as we will have a new government in two years. But we will try to ensure that the politicians implement the proposals we presented to them when they were in the opposition. As of now, the Ministry has announced changes in origin labelling to include the country of origin on the label.

At the moment, we can only hope that the Ministry of Agriculture will pay us more heed.

*Jose Alberto Martín González, Spanish dairy farmers' organisation OPL*

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## Restructuring a must for the French dairy sector

Since his investiture, Emmanuel Macron has launched the États Généraux de l'Alimentation (EGA), a set of conclusions and policies that obliges different interbranch organisations to propose 'sectoral plans' – in other words, projects for the development and transformation of agricultural and agri-food sectors.

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These plans should aim for more transparent negotiations while revamping the system whereby production costs serve as the basis to calculate the price of finished products. The plan for the dairy sector seems to mainly focus on upgrading the quality of products rather than covering production costs, though everyone seems to be advocating for the latter. While the discussion on production indicators leaves much to be desired, the effect of the many emerging initiatives inspired by FaireFrance like, for example, that of 'responsible dairy farmers' by the cooperative Sodiaal and their impact on prices paid to cooperative members remains to be determined. The fact that dairy companies (private or cooperatives) aims to cover production costs for a very small percentage of production volumes should not be enough to validate a sectoral plan that would do nothing to address the current situation!

### A margin divided unilaterally

A comparison of the French and German dairy industries provides a wealth of conclusions. In 2016, German milk production amounted to 31.3 million tonnes against 24.7 million tonnes in France, and the total turnover of processing was 21.9 billion euros and 30 billion euros respectively. Therefore, turnover for Germany was 0.699 euros/litre against 1.214 euros/litre for France. It is difficult to believe that French dairies operate at a cost that is 42% (515 euros/1000 litres) higher than their German counterparts! Furthermore, if we use the turnover of the French dairy industry in 2010 as a reference, this would amount to a cumulative surplus turnover of 32 billion euros over seven years (i.e. more than the turnover of an entire year like 2017), which gives you +190 euros for every 1000 litres processed over these seven years! However, French producers did not receive better prices than their German colleagues and the German dairy industry is definitely not less efficient than the French. Therefore, it is legitimate to demand an explanation from these processors before addressing distributors!

### A need to regroup producers

In order to give more weight to the excessive number of producer organisations (approx. 60 authorised POs) in price and volume negotiations, the POs as well as the cooperatives (representing more than 50% of milk deliveries in France) should imperatively be regrouped effectively and in the fewest possible Associations of Producer Organisations. With this kind of collective organisation and, if necessary, a reduction in production volume, producers would finally be able to pull prices up and get the missing 100 euros to reach the 450 euros demanded by the OPL and all the organisations of the EMB.

*Véronique Le Floc'h, President of the French milk producers' organisation OPL of CR*

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## Interview with Pat McCormack, new EMB board member

*Pat McCormack from Ireland has been a new member of the Executive Committee of the European Milk Board since mid-April 2018. At 41 years of age, Pat McCormack is the youngest ever President of Irish Creamery Milk Suppliers Association (ICMSA), the state's specialist family dairy farm organisation. He was previously Deputy-president and Chairperson of the Dairy Committee of the Irish federation. The analysis of the milk market is a*

*prerequisite for him to be able to represent the interests of milk producers.*

*Pat is married and has a young daughter of 4 months.*

**Mr. McCormack, what is your farm like? Who does the work when you are in Brussels?**

I milk 100 Friesian-Holsteins on a standard spring-calving basis. My milk is supplied to my local Co-operative, Tipperary Co-op, with whom I also have an involvement in an advisory capacity. The farm was inherited from my father and – as is usual in Ireland - has been in our family for at least five generations. When I am away from the farm on ICMSA or EMB business, day-to-day running is carried out by an employee on a work schedule I set.

**Which topics are important to you for your work in the European Milk Board?**

What has always struck me about EMB is the almost complete uniformity of the problems we all face throughout the countries represented; the backgrounds might vary but the challenges are substantially the same. I am very interested in the Commission's tentative moves to reform supply-chain margins. There are some encouraging signs that Commissioner Hogan is actually serious about taking on the retail corporations' cartel and they're relentless attacks on suppliers' margins. Obviously I am very focussed on CAP and we're determined that this core policy is protected from short-term budgetary concerns. But my overriding concern is to develop our capacity to act together and share analysis and solutions that will deliver better and sustainable milk prices.

**Irish dairy farmers surprised us with the highest proportionate reduction in the EU volume reduction programme. How do you explain this strong participation?**

Irish farmers are able to respond quickly to market movements and there was an enthusiasm immediately post-quota that saw expansion happening. The milk price slump of 2015-2016 really punished our members with prices falling below the costs of production for a prolonged period. ICMSA called early for a voluntary reduction scheme because it was perfectly obvious that the price support 'tools' available were wholly inadequate. When the Voluntary Reduction Scheme was introduced our farmers availed of it and - as ICMSA and EMB had predicted – it put a 'floor' under the price almost immediately and was, in our opinion, so demonstrably effective that we want it included as a permanent option going forward. Irish farmers did the figures and clearly saw at the time that reducing production temporarily was clearly the most sensible option.

**With Brexit, the CAP budget and planned free trade agreements, farmers will face quite some challenges. What do you see as the biggest sticking points in the future?**

First and foremost, we need to go forward with a properly funded and maintained CAP that recognises the importance of sustainable and indigenous food production within the EU and for the EU. As far as ICMSA is concerned, the first item on the agenda is the CAP Budget and Ireland has stated categorically that it will increase its contribution to make up the Brexit deficit and we expect others to do the same.

**What goals have you set yourself for your work within the EMB?**

To convince EU farmers to discover what every other sector realised long ago: we have so much more in common than any perceived differences. Individual member organisations have developed lobbying and analytic capacities that all

member organisations should be able to avail of. Same problems and often the same solutions just different flags and we need to work together!

Thank you very much for the interview!

Regina Reiterer, EMB

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European Milk Board ASBL

Rue de la Loi 155

B-1040 Bruxelles

Tel: +32 (0)2808 1935

Fax: +32 (0)2808 8265

Mail: [office@europeanmilkboard.org](mailto:office@europeanmilkboard.org)

Document-URL: <http://www.europeanmilkboard.org/https://www.europeanmilkboard.org/english/newsletter-july-2018.html>