Dear dairy farmers and interested parties,

A number of important events have taken place at European and international level over the last few weeks. The heads of state and government of the EU member states made decisions on filling the EU's top jobs, and the European Parliament also found new representatives for its key positions. I wish them all the best for the next five years as they strengthen and help build a fair Europe with an equitable agricultural policy.

Another very important event of the last few weeks occurred on 28 June with the signing of a free trade agreement between the EU and the Mercosur block of South-American countries. As a dairy farmer, I would like and have to express my major misgivings about this new trade agreement. The negotiated high beef quota for exports from the South-American countries can put severe pressure on meat prices for producers in the EU. Milk prices within the EU could also drop due to an increase in soya imports. According to the agreement, they are to be subject to reduced export duties in the Mercosur countries. The cheapened soya imports could further boost milk production in the EU and hence overproduction in the dairy sector. At the same time, the liberalised trade of processed milk products can lower milk prices for producers in Mercosur countries. This agreement is going to be of no help to farmers on either side of the Atlantic. On 2 July, the EMB reacted with a press release, which you can also find in this issue of our newsletter. In addition, numerous dairy farmers are protesting in various European countries against the agreement. And the discussion about ratification is only just beginning!

Dairy farmers are in the eye of a perfect storm, as not only the free trade agreements are a problem. The risk of a no-deal Brexit is increasing, whilst milk prices in the EU are already low.

We are also dealing with other topics in this newsletter. Swiss farmers are calling the decreases in milk prices by dairies into question, and the Belgian milk producer Daniel Hick talks about his experience with fair milk Fairebel and about the launch of their new organic ice cream. The German dairy farmers' association BDM provides an overview of the German milk sector.

I hope you find this issue interesting!

The next issue of our newsletter will be published in September.

Sieta van Keimpema, EMB vice-president and president of the Dutch Dairymen Board (DDB)

EMB Newsletter July/August 2019

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Nominations for the EU's top jobs

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Decisions were made about the EU's top jobs at the European Summit on 2 July 2019, and shortly thereafter, the European Parliament also decided who would fill its key posts. One of the most contentious points was the nomination of the President of the European Commission. Here is a short summary of the developments.

European Commission

Former German Minister of Defence Ursula von der Leyen has been nominated as Commission President. On 16 July, she was elected by the European Parliament by a narrow majority of nine votes. She will begin her work on 1 November.

Before beginning her political career, she worked as a medical doctor in Germany. Thereafter, von der Leyen was Federal Minister for Family Affairs, Senior Citizens, Women and Youth from 2005 to 2009, and Federal Minister of Labour and Social Affairs from 2009 to 2013. She then served as the Federal Minister of Defence until July 2019.

European Parliament

The European Parliament has chosen **the Italian David Maria Sassoli (S&D)** as its President. Sassoli is a journalist and has been a Member of the European Parliament since 2009. In the preceding parliamentary term, he was one of the 14 Vice-Presidents of the European Parliament.

The **Members of the Agriculture Committee** were announced in early July. You can consult the full list of members **here**. The Agriculture Committee elected the German Norbert Lins as its Chair. During the previous term, he was the co-rapporteur for the report on the EU authorisation procedure for pesticides.

Council of the European Union

Current Belgian Prime Minister Charles Michel was chosen as President of the Council of the European Union. In Belgium, he is the President of the liberal party *Mouvement Réformateur* (MR).

European Central Bank

Christine Lagarde from France, current Director of the International Monetary Fund (IMF), was chosen as the President of the European Central Bank. At national level, she served as Minister of Economy and Finance in the cabinet of Prime Minister François Fillon from 2007 to 2011.

EU High Representative

Josep Borrell from Spain was nominated for the post of EU High Representative for Foreign Affairs and Security. His nomination must now be approved by the European Parliament. He is currently Spain's Foreign Minister. He was the President of the European Parliament from 2004 to 2007.

Nicolas de la Vega, EMB

Vanessa Langer, EMB

EU-Mercosur trade agreement: what's next for EU farmers?

On 28 June, after a marathon negotiation of over two decades and 39 rounds of formal discussions, the EU reached a trade agreement with the South American Mercosur block consisting of Brazil, Argentina, Paraguay and Uruguay.

© European Commission

European Commission President Jean-Claude Juncker said that this is 'the largest trade agreement the EU has ever concluded'. There are many fears, though, that the deal will severely affect the EU's beef production and Mercosur's manufacturing.

Will dairy farmers benefit from this trade agreement?

According to official statistics, the EU currently has a positive trade balance with Mercosur for processed dairy products in the form of milk powder, whey, cheese, chocolate, ice cream and baby food, with EUR 146 million in exports and EUR 9 million in imports. The main importer of EU products is Brazil with EUR 105 million, followed by Argentina with EUR 26 million, then Uruguay with EUR 12 million and finally Paraguay with EUR 3 million. The European Commission asserts that trade amounts are low compared to other third countries due to current Mercosur tariffs of up to 28%, thus seeing the agreement as an opportunity for the EU. Eucolait, the European Association of Dairy Trade, shares this view. The Brazilian government, on the other hand, is concerned that their milk prices will drop. Over a period of ten years, the trade agreement will phase in tariff-free quotas for specific products: 30,000 tonnes of cheese, 10,000 tonnes of milk powder and 5,000 tonnes of baby food. Taking cheese as an example, this would mean a tenfold increase in exports to Mercosur. This may be positive for dairy processors, but there is no guarantee that exporting more to Mercosur will improve milk prices for EU farmers.

Soybean imports contribute to EU overproduction

Europe's agribusiness has a large dependence on soya imports from South-America. According to trade figures, Mercosur countries supply 94% of the soybean meal and 52% of the soybean seeds that the EU buys globally. This large influx of feed into Europe is one of the lead causes of milk and meat overproduction. With the agreed reduction of export taxes on soya, the dependence on South American protein will further increase. Cheaper soya imports to Europe are likely to increase the EU's milk production and lower prices for farmers.

Raising beef quotas poses a high risk for several EU countries

EU tariff-free import quotas for beef will rise to 99,000 tonnes over six years. This puts the EU's cattle sector at considerable risk, as was pointed out in a letter signed on 17 June by French President Macron, Irish Taoiseach Leo Varadkar, Polish Prime Minister Mateusz Morawiecki and Belgian Prime Minister Charles Michel. The issue is divisive, with seven other EU leaders asking in another letter to look at the benefits for Europe's industry and to "be ready and willing to make some final concessions", namely in the agricultural sector.

There were also critical reactions from the farming sector and NGOs. Copa-Cogeca, the EU's largest farmers' federation, warned the European Commission against signing such an agreement at a time of extreme uncertainty for European agriculture. The federation also called on the EU to maintain its tariffs on key sensitive products and to uphold EU environmental standards. In an open letter, over 340 NGOs from Europe and South America called for the suspension of negotiations for as long as deforestation and human rights abuses are still on the Brazilian agenda.

Not a done deal – ratification could be the stumbling block

Negotiators reached a deal, but uncertainty looms ahead of the end of term for this European Commission – the EU's negotiator – and in view of the Argentinian elections, both due in October. In the last few days, the French government warned that it is not prepared to ratify the deal. Within Mercosur there is also pressure from industrial manufacturers and wine producers not to ratify the trade agreement, or to limit its scope. While an agreement was reached, not all has been said about EU-Mercosur trade relations.

Nicolas de la Vega, EMB

Milk producers are critical about Mercosur Agreement

Arrangements are disadvantageous to consumers and producers

© EMB

The milk producers of the European Milk Board (EMB) have expressed severe misgivings about the recent trade agreement between the EU and the Mercosur countries. As EMB Vice-President Sieta van Keimpema explains, it is problematic for the dairy and the beef sector as well.

The recently-approved generous beef quota to the tune of 99,000 tonnes for export from the South-American countries to the EU poses the risk of a significant drop in EU beef prices and threatens to replace part of local beef production. Furthermore, other arrangements in the Mercosur Agreement could further increase the existing overproduction in the dairy sector. The high quantity of soya imports is one of the reasons for the damaging overproduction in the EU. The planned reduction of Mercosur export duties is expected to lead to even higher soya imports to the EU, which could exacerbate EU surpluses even further. "We milk producers in the EU have been working for years to make the dairy sector resistant to crises and future-proof once again. The Mercosur Agreement, unfortunately, counteracts these efforts", says van Keimpema.

"Furthermore, these agricultural products, which will now come to us in Europe in even greater quantities, are different from those produced in the EU in terms of standards and production requirements. This leads to unfair competition to the detriment of EU producers", continues van Keimpema, further explaining the milk producers' concerns. "And of course, we have to wonder to what extent at least guaranteed conditions for EU consumers will really be respected."

But the agreement is not only questionable for milk producers and consumers in the EU, as van Keimpema goes on: "The decreases in tariffs for EU milk products pose the threat of stifling milk prices for dairy farmers in the South-American countries as well. While our association represents European milk producers first and foremost, we also want to ensure that the price situation for our colleagues in the Mercosur region does not deteriorate."

To add to this, she points to the current developments in Brazil, the largest Mercosur economy, which are truly unsettling. "The government's handling of human rights as well as its environmental decisions are being met with significant criticism worldwide – something that we echo", says van Keimpema. As one of the points of major concern she mentions the increased felling of the rainforest since the beginning of 2019.

As the EMB underlines, milk producers' evaluation of the Mercosur Agreement is not fuelled by a desire to increase protectionism. Is it important for trade agreements to establish fair and balanced trade relations – that are not disadvantageous to farmers and citizens on either side. Due to all the reasons above, the Mercosur Agreement in its current form sadly does not fulfil this key condition.

EMB press release of 2 July 2019

Only 78% of milk production costs covered in Germany

The quarterly cost figures for Germany show that only 78% of production costs were covered in April 2019. Cost of production amounted to 44.33 ct/kg in April; however, dairy farmers only received 34.56 ct/kg for their product. Producers thus lack 9.77 ct/kg to cover their costs.

These figures come from the German quarterly cost studies published by the Farm Economics and Rural Studies Office (BAL). With the figures for April 2019, the calculation of milk production costs was adapted to the latest FADN data for 2017.

Johannes Pfaller, member of the EMB's Executive Committee and milk producer from southern Germany, says: "The persistent gap between the costs of milk production and the farm-gate prices paid shows that the dairy industry holds out on us dairy farmers; they pay us just enough so that they keep our milk coming, but there's nothing left for us." One cause of this is the market power imbalance to the detriment of the dairy farmers identified by the German Federal Cartel Office in the Milk Sector Study. "Altogether the price is not set in a functioning environment of competition and negotiation at the moment", says the German Federal Cartel Office. "We have to change something about this as soon as possible. And the orientation of the EU agricultural policy towards cheap raw materials for the dairy and food industry must also be brought to an end" says Pfaller.

Evolution of milk production costs in Germany

Here you have the evolution of milk production costs in Germany from 2009 to April 2019.

Price-cost ratio (shortfall)

The price-cost ratio illustrates to which degree milk prices cover production costs. In April 2019, producers only recovered 78% of their production costs from the milk price; the shortfall was thus 22%.

Here you see the cost shortfall since 2009.

Milk Marker Index (MMI)

The Milk Marker Index represents the evolution of milk production costs. In April 2019, the MMI was at 107 i.e. production costs for German dairy farmers had risen by 7% as compared to the base year 2010=100.

Here you see the evolution of the Milk Marker Index over time.

Study on milk production cost in six key milk production countries

Cost calculations are regularly carried out in Germany but also in five other countries. They as well clearly show that milk producers are not paid cost-covering prices.

New: The calculations of milk production costs in Belgium, Denmark, France, Germany, Luxembourg and the Netherlands for 2017 are now available. You can find the study **here**.

A chronic shortfall between production costs and milk prices – What is the solution?

The European Milk Board promotes a legally-anchored crisis instrument to counteract the chronic cost shortfall. The Market Responsibility Programme (MRP) observes and reacts to market signals by aligning production.

Here you have a short description of the EMB Market Responsibility Programme.

Background: *Commissioned by the European Milk Board and Germany's MEG Milch Board, the Farm Economics and Rural Studies Office (BAL) started compiling comprehensive data on milk production costs in Germany in 2012 for the study entitled "What is the cost of producing milk?". The calculation is based on data from the EU Farm Accountancy Data Network (FADN) as well as the Federal Statistical Office (Destatis), and has been updated every quarter since 2014.*

Download the data sheet here

EMB press release of 16 July 2019

Update from Germany

© BDM

Current state of the German dairy sector and BDM's reaction to the EU-Mercosur deal

Overview of milk prices in Germany

Farm-gate prices for May were essentially stable; however, individual dairies reduced their milk prices.

The Deutsche Milchkontor (DMK) reduced its milk price by 0.5 cent to now 30.0 cents/kg, and the Müller dairy by 1.0 cent to 32.7 cents/kg.
The highest base price was 36.5 cents (Milchverwertung Ostallgäu) and the lowest was 29.49 cents (Hansa Arla eG). MUH Arla was at 29.49 cents, Hochwald Milch eG at 31 cents, and FrieslandCampina Cologne at 34 cents.
All milk prices are base prices for milk with 4.0% fat and 3.4% protein, excluding value-added tax and bonuses and deductions (e.g. quality grade “S class”).

Evolution of milk production in Germany

Milk supply in Germany decreased regionally in June, and altogether in the course of the month it was far lower than the previous year. It is important to note that this decrease has to do with the negative record in the number of dairy cows in Germany. In spite of the low milk volume, the price situation is still very tense. Therefore, the indicator of the Kiel-based IFE institute was only 31.0 cents/kg at the end of June.

EU-Mercosur free trade agreement increases pressure on farmers and counteracts climate goals

According to the German dairy farmers' association BDM, the EU free trade agreement with Mercosur is yet another trade deal where agricultural products were used as a bargaining chip to improve the conditions for industrial goods, especially the automobile industry. This is even more problematic against the background of simultaneously increasing requirements of agricultural production in Europe.

Objectives and strategies that are being pursued at European level, like non-use of GMOs, reduction of plant protection products, protein and biodiversity strategies, will be counteracted by imports of products from Mercosur countries, which are produced according to significantly lower environmental and social standards. This has, once again, essentially created a framework where the existing stiff competition faced by European farmers will only get worse and thus their ability to comply with necessary environmental, climate and animal welfare goals will be reduced.

Bundesverband Deutscher Milchviehhalter e.V. (BDM)

The new Fairebel organic ice cream: interview with Daniel Hick

The European Milk Board (EMB) interviewed Daniel Hick, vice-president of the Belgian fair milk cooperative Fairebel, and asked him about their newest product, a Fairebel organic vanilla ice cream, as well as about the experience of milk producers with milk processers and retailers.

© Fairebel

EMB: Why was this product launched on the market?

Daniel Hick: *Fairebel has been selling ice cream for years, and the milk used has always been organic. The difference now is that all the other ingredients are also organic and are used to produce a fully-certified organic ice cream. We already sell a pack with four flavours. The new ice cream is only available in vanilla, as that is the most popular one among our customers.*

EMB: What has been the reaction so far?

Daniel Hick: *It is still too early to say, but we are optimistic! In order to increase our chances, Fairebel farmers will be introducing the new ice cream to customers in supermarkets this summer. The contact between consumers and farmers is of utmost importance to us at Fairebel.*

EMB: Fairebel has been working with ice-cream manufacturer GILFI for several years now. How has it been working out so far and what have you as a dairy farmer learnt from this experience?

Daniel Hick: The *collaboration has always been very smooth. The company buys milk directly from farmers. This makes it possible for farmers to receive fair prices and improves the quality of the end product as only fresh raw milk is used instead of milk powder. We have a short production chain, the quality is outstanding and our ice cream is delicious!*

EMB: What does the future hold for Fairebel and are organic products part of that plan?

Daniel Hick: *We have been trying to launch more organic products for several years but we keep coming up against obstacles with the retail sector. Often the shelves are already full, and for a new product to be added an existing one must be removed. Furthermore, supermarkets generally prefer their own private labels for organic products. Competition is fierce, but we offer good products and we will keep working on launching new ones.*

EMB: Where can we buy this delicious new ice cream?

Daniel Hick: *Carrefour as well as some specialised stores sell our ice cream. It is available throughout Belgium. Furthermore, when customers ask their supermarkets for a specific product, this puts pressure on them to make sure these products are on the shelves. Asking for our ice cream can definitely help. And for those of you who plan to try it: enjoy!*

You can find further information about the new Fairebel organic vanilla ice cream here.

Nicolas de la Vega, EMB

Milk turning sour! Unjustified milk price reductions in Switzerland

© Uniterre

On 16 May 2019, the members' assembly of the Swiss dairy sector organisation (BOM), the body in charge of dairy sector stability in Switzerland, voted in favour of the "Green Carpet" programme.

This is a new standard based on services in a number of areas, notably animal welfare, grazing and the use of veterinary medicines (for further details, see EMB article September 2018).

On 16 May 2019, the members' assembly of the Swiss inter-branch organisation milk (BOM), the body in charge of dairy sector stability in Switzerland, voted in favour of the so-called "green carpet" programme. This is a new standard based on services in a number of areas, notably animal welfare, feed and the use of veterinary medicines (see EMB article in September 2018).

In specific terms, the "green carpet" is a bonus of 3 centimes [*a hundredth of a Swiss franc*] integrated into the BOM's calculation of the indicative price for segment A milk and will be implemented as of 1 September 2019. Shortly thereafter, milk processor ELSA, which belongs to the Migros group, announced in a letter to its producers that they will be decreasing their milk price by 3 centimes as of 1 July 2019. In this way, the same increase that was agreed on with milk processors was completely retracted just a few days thereafter.

ELSA, in an attempt to avoid complaints, states that *"this decrease in milk price is probably, in part, due to the fact that resources made available in the context of the BOM's substitute solution for the Chocolate Law* cannot fully compensate the former export subsidies."* This explanation is not convincing because ELSA is essentially inactive on the export market. Furthermore, ELSA also states that the milk price shows a declining trend as the EU market is saturated. However, milk deliveries and butter stocks are very low and indicators project a stable to slightly positive market situation on the European market in coming months.

In early January 2019, ELSA already did something similar with a bonus of 3 centimes paid to milk producers for "Migros sustainable milk" (see EMB in article February 2018) while, at the same time, a reduction of 4.5 centimes was applied for alleged "transport and administration" costs – which meant a final reduction of 1.5 centimes per litre of milk.

Milk producers are up in arms. In a joint press release, the Swiss Farmers' Union and the Federation of Swiss Milk Producers (SMP) have called on ELSA to *"stop playing with fire and to put an end to milk price reductions."*

The milk committee of Uniterre is not going to remain quiet either and is working on an appropriate response. To be continued. More about it in our next article.

***Substitution of the Chocolate Law:** In 2015, the WTO decided to ban export subsidies, and it was, therefore, necessary to find a solution that would guarantee that Swiss milk would still be used in the production of processed foods and that the volume of Swiss milk sales would not decrease. This new rule meant that payments totalling 94.6 million francs currently granted under the Chocolate Law can be maintained.*

Since then, the Federal Office for Agriculture has been paying all producers 4.5 centimes per kilogram of milk sold. Processors are paying this sum (4.5 centimes) through two funds on the milk not converted to cheese in their facilities.

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