

Dear dairy farmers, dear interested parties,

A new Executive Committee has been at the helm of the European Milk Board since mid-April 2018.

In a very moving Members' Assembly, Romuald Schaber, founder and President of the European Milk Board, was bid farewell after serving for twelve years. John Comer as well stepped down after six years of committed work. Two young, motivated milk producers – Pat McCormack from Ireland and Johannes Pfaller from Germany – were elected to the new Executive Committee.

In light of the current situation, strong representation for Europe's milk producers is more important than ever before. The EMB Executive Committee is conscious of this responsibility. It is only by working together that we can achieve cost-covering milk prices for all dairy farmers in Europe, thus assuring us fair remuneration for our daily work.

Time is of the essence – we should all be aware that it will be very difficult for our family farms to stay in business unless the framework conditions to provide for fair prices on the dairy market are quickly created.

At the Members' Assembly, we also decided that solidarity among dairy farmers in Europe should be showcased and brought to the forefront. We want to clearly show national and European decision-makers that the EMB fosters unity and will do everything required to make it possible to pass on sound, viable farms to the next generation.

We need a Europe-wide solution to align milk production with the existing market situation and we need it NOW. Firstly, the Milk Market Observatory should be empowered to act. It must become a European body that decides when and how volume should be adjusted. This could mean increasing production in line with corresponding demand or reducing it in light of surpluses. There is no point of an observatory that only observes the dairy market without reacting appropriately to crises!

We are looking to continue discussions with the European institutions, national Agriculture Ministers and all stakeholders on the dairy market. Our goal is to improve conditions for milk producers in Europe as a whole. We are also developing actions and campaigns in parallel. We are definitely not running out of ideas.

The great enthusiasm and commitment at the last Members' Assembly to pursue our goals in solidarity was a source of great motivation for me. The EMB lives through its dairy farmers and we are all highly driven to ensure that we can keep exercising our profession. We farmers can continue to provide the high-quality products that consumers expect only if we are paid cost-covering prices and receive fair remuneration for our work. Producers, processors, traders and consumers must acknowledge these goals – for sustainable farming and for the survival of family farms.

Let's get to work, we have no time to lose! I call on you all to support the entire Executive Committee and myself. Our strength is in a united front!

Erwin Schöpges, President of the European Milk Board

EMB Newsletter May 2018

- Fewer agricultural subsidies necessitate framework for cost-covering prices!
 - Investment proposal: invest 0.25 cents and get up to 5-10 times the amount in return or even more
 - Milk pooling – How to ensure fair supply conditions
 - Agriculture Ministers' conference in Münster: deadlock in milk policy
 - How EU milk is sinking Africa's farmers
- You can find us on Facebook

Contact

EMB - European Milk Board asbl

Rue du Commerce 124
B-1000 Brussels

Phone.: +32 - 2808 - 1935

Fax: +32 - 2808 - 8265

office@europeanmilkboard.org

www.europeanmilkboard.org

Fewer agricultural subsidies necessitate framework for cost-covering prices!

Is the EU progressive enough to properly engineer stabilisation of farmers' income?

According to a proposal tabled by the EU Commissioner for Budget and Human Resources Günther Oettinger, the agriculture budget is to be cut by five percent.

The planned savings under the Multiannual Financial Framework (MFF) 2021-2027 were presented in Brussels last week.

No more subsidies – fair farm-gate price for milk?

It makes sense to cut agricultural subsidies only if the market allows farmers to operate at cost-covering prices. Otherwise the situation of European milk producers is exacerbated even further, especially as the background scenario has been one market crisis after another over several years.

Erwin Schöpges, President of the European Milk (EMB), is not against less dependence of dairy farmers on subsidies *per se*. "All we dairy farmers want to do is generate our income by selling milk. For that, though, we need cost-covering prices, which means we should not be selling our milk below production costs, as is currently the case." If in future EU policy cuts subsidies, there will be even greater urgency to create framework conditions for cost-covering milk prices, he says.

So far the cost gap has been attenuated by direct payments

Under EU plans, as of 2021 direct payments to European dairy farmers are to be reduced by four per cent. In Germany, for instance, total production costs before deducting subsidies in January 2018 were 44.48 cents/kg milk. Producers were paid a farm-gate price of merely 36.75 cents/kg. The deficit of 7.73 cents was marginally offset by direct payments of 2.69 cents/kg milk.

The situation is similar in France, where total **production costs** before deducting subsidies in 2017 were 49.25 cents/kg milk, with producers being paid 34.42 cents. So far, the huge deficit of nearly 15 cents a kilo of milk has been slightly made up for by EU direct aid to the tune of 4.11 cents a kilo.

If in future these direct payments are cut, without any framework being set up for cost-covering prices in the market, the dairy farmers' income situation will be palpably worse.

Framework for stable income for dairy farmers

The European Milk Board calls for a legal framework that keeps supply and demand in equilibrium, enabling stable, cost-covering farm-gate milk prices. The EMB's **Market Responsibility Programme**, for instance, provides for voluntary production cuts if the market situation is tense, to prevent a price collapse due to overproduction.

Sieta van Keimpema, dairy farmer in the Netherlands and vice-president of the EMB, comments as follows: "I very much appreciate the fact, for example, that the EU Commission is now advocating legislative instruments to counter unfair trade practices in the supply chain – at the micro level, in effect. But what we need more than anything on the macro level is a milk price that covers our production costs. The Common Agricultural Policy needs progressive proposals and an effective framework!"

EMB press release of 9 May 2018

Investment proposal: invest 0.25 cents and get up to 5-10 times the amount in return or even more

© EMB
powder (SMP) stock.

The above headline is not an attempt to be funny and it is not a sales pitch either. In fact, it is a potential solution for getting rid of the skimmed milk

It is a well-known fact among everyone from Commissioner Hogan to national parliaments, dairies and not least dairy farmers that the enormous SMP stocks are putting massive pressure on the current milk price. Officially, everyone wants to get rid of it. But in fact, there are many purchasers who benefit from the SMP stock, and it ensures cheap milk for the dairies.

It should be possible to buy the stock for less than 1,100 euros per ton. With 350,000 tons in storage, the total price would be 385 million euros. The total annual milk production in the EU is around 165 billion kg. Considering these two facts, the EU dairy farmers would be able to buy the entire stock for a quarter of a cent per kg of the annual production. The lease shouldn't be a problem as a couple of hectares would be enough to hold the SMP stock. We wouldn't mind a hole in the tarpaulin either, as there are no intentions to sell the SMP for less than a cost-covering price. Otherwise, just let it sit there. There is a risk that the powder will never be sold, but then it could serve as a

statue of liberty for European milk production.

Does the above scenario sound like a silly idea to you? Yes, silly perhaps, but it is also silly to store products that have never had a market. With hindsight, even Hogan has realized the blunder: "not good enough to continue producing any product for a non-existent market and then confidently expect that the taxpayer, in this case through the Commission, will bail them out". This was his response to a German proposal regarding the SMP stock and how to get rid of it. LDM, the National association of Danish Dairy Farmers, agrees with the Commissioner on this point. So, allow dairy farmers to buy the powder as a token of their freedom.

Kjartan Poulsen, Landsforeningen af Danske Mælkeproducenter (LDM)

Milk pooling – How to ensure fair supply conditions

Dairy farmers come together in producer organisations (POs) in the search of alternative marketing channels. The steadily progressing concentration in the hands of dairies makes it difficult for individual farms as well as producer organisations to find new buyers.

© EMB

In the past, the company Berliner Milcheinfuhr-Gesellschaft (BMG) was one option for many newly-formed producer organisations. According to Peter Guhl, dairy farmer and Chairman of the MEG Milk Board, the BMG's bankruptcy was due to faulty management, but was also very convenient for the sector – in this case, for other dairies, which in his opinion explains their non-existent or only very hesitant support. As a consequence, the disappearance of the BMG led to the dismantling of many producer organisations. According to Guhl's assessment, the affected farmers would no longer support any kind of upcoming alternative marketing initiative.

But what can be done to get away from the existing relationship of dependence on dairies, and change this backwards price-fixing that is detrimental to dairy farmers? The MEG Milk Board demands regulatory measures from policy-makers. More specifically, they call for new rules to govern supply conditions between milk producers and dairies on the basis on Article 148 of Reg (EU) 1308/2013 on the common organisation of markets. "National law-makers can then introduce generalised compulsory contracts for their territories. The contracts must specifically set out rules regarding price, volume and contract duration," says the MEG Milk Board in a letter to its members.

This demand, however, does not enjoy much support from the concerned policy-makers or the Federal Ministry of Agriculture. They state a lack of support among producers and they assume that the 'sector' will find solutions for itself. Guhl, however, believes that it is necessary, first off, to clearly define what constitutes the sector in question. To unceremoniously clump dairy farmers, dairies, milk traders and retail into a sector, simply because they all have something to do with milk, ignores not only their highly divergent individual interests, but also their different size and power relationships.

An orientation based on the individual level of value creation would be desirable, e.g. milk producers should be defined as a sector. Contracts must state the specific volume in kilograms that can and must be delivered over a fixed period of time and must set an exact price in euro/kg. According to Guhl, his PO has been standing proof for the effectiveness of this system, time and time again. In the previous year, the participating farmers supplied 99.16 per cent of the decided volume.

Article by Marcus Nürnberger, published in "Die Bauernstimme", May 2018

Agriculture Ministers' conference in Münster: deadlock in milk policy

"We had definitely gone beyond this" – This statement by Agriculture Minister Dr. Till Backhaus (Mecklenburg-Western Pomerania) perfectly summarises the outcome of the German Agriculture Ministers' conference (April 2018) in

light of its dairy market resolutions.

Due to the principle of unanimity, the opposition of individual Agriculture Ministers was enough to put the brakes on laying the necessary foundation for a crisis-proof dairy market. The cross-party support for an effective volume management system at EU level in the state legislatures of Bavaria, Saxony-Anhalt and Mecklenburg-Western Pomerania clearly did not give Agriculture Ministers enough impetus to take a similar facts-based, cross-party position at

this Agriculture Ministers' Conference.

They should also have laid greater emphasis on the consistently high volumes of skimmed milk powder in EU intervention storage, which continue to exert immense pressure on the market, and should have backed a quick, market-friendly solution to reducing these milk powder mountains. When using skimmed milk powder stocks as international aid to improve availability, it is essential to ensure that still-developing local markets are not destroyed. What

sounds humanitarian should not have inhumane consequences.

Dairy market resolutions by state legislatures

According to the landmark dairy market resolutions in Bavaria, Saxony-Anhalt and Mecklenburg-Western Pomerania, supply conditions between milk producers and dairies should be enshrined in contractual obligations. According to Article 148 of the Regulation on common organisation of markets, national measures should provide for binding contracts that stipulate the supply of a specific volume and quality at a fixed price, within a fixed period of time.

The Landtag resolution from Mecklenburg-Western Pomerania does not only mention the further development of the EU Milk Market Observatory to provide more comprehensive and timely information on dairy market developments. It also calls on the European Commission to extend the existing safety net at EU level to include the possibility of temporary EU-wide milk volume reduction without compensation as a crisis instrument.

Johannes Fritz, German dairy farmers' association BDM

How EU milk is sinking Africa's farmers

Multibillion-euro dairy multinationals are exploiting rock-bottom European milk prices to expand aggressively into West Africa. Over five years, they have nearly tripled their exports to the region, shipping milk powder produced by heavily subsidized European farmers to be transformed into liquid milk for the region's booming middle class.

This milk rush is ratcheting up long-standing accusations that poor countries pay the price for EU farm policies crafted in Brussels. European pressure on Africa's dairy producers intensified in 2015, when the EU lifted its milk quotas. With prices at historic lows, EU dairy companies desperately needed new markets to rid themselves of their glut. West Africa, with its growing population and demand for dairy, was an obvious destination. Between 2011 and 2016, milk powder exports from the EU to West Africa jumped from 12,900 metric tons to 36,700 tons — most of it flowing to plants in Senegal, Ivory Coast, Ghana and Nigeria, which re-export the product to their neighbouring countries.

As global players such as Danone, Arla and FrieslandCampina set up reconstitution plants to process imported European milk, West African farmers are struggling to compete. Although local production has never fully met demand, experts warn that the recent milk deluge risks smothering the local industry, miring the region in dependency.

"People who live from milk are struggling," said Adama Ibrahim Diallo, the president of Burkina Faso's milk producers and mini-processors union. He said farmers in his region are gradually giving up. Diallo warned that the problem is aggravating the security situation in the Sahel. "The sons of pastoralists become jihadists — not out of conviction but because there are no jobs." "The problem ... is tied to overproduction," he said. "The multinational companies' strategy is to implant themselves in West Africa to sink their milk in."

More milk, more markets

European dairy companies say they need to sell milk outside of Europe to survive. Arla Foods — a Danish dairy cooperative with €10 billion in annual revenue — established a plant in Ivory Coast designed to handle its milk powder in 2013, for example. In 2015, it opened more facilities in Nigeria and Senegal. Danone made an even more muscular entrance in 2013 when it bought a 49 percent stake in Fan Milk, with plants in six West African countries. The French company took ownership in 2016. Others such as Nestlé and FrieslandCampina, a Dutch co-op, have been in the region for decades. However, both also invested more just before the end of quotas. FrieslandCampina added a powder plant in Ivory Coast in 2014, while Nestlé opened a new Ghanaian plant the same year.

Bottom-barrel prices driven by Europe's overproduction also have encouraged exports, which grew a jumbo 38 per cent in 2017 over the previous year. The cost of skim milk powder fell from about €3.30 per kilo at the beginning of 2014 to about €1.70 at the same time in 2016, for example, before sliding to €1.30 in March 2018.

It's the ubiquity of cheap European milk that makes buying what local supply there is uneconomical. Domestically produced milk in Senegal, for example, costs about \$1 a litre, according to a U.N. Food and Agriculture Organization study published last year. Milk made from reconstituted imported SMP costs half as much.

All EU dairies in West Africa say they work with local partners. Danone finances a milk plant in Senegal for local milk producers, for example, while FrieslandCampina and Arla are working with Nigerian dairy farmers.

Some locals dismiss such schemes as window dressing, however. "It's a way to look good in the European Union," said Diallo, the president of the Burkinabé milk union. "They came for the business — they did not come to help producers."

Extract of the article „How EU milk is sinking Africa's farmers" by Emmet Livingstone/POLITICO, 18 April 2018

You can find us on Facebook

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

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