## Dear dairy farmers and interested parties,

For almost a year now, milk prices in the EU have been stuck in a downward spiral. In most countries, prices currently range between 25 and 30 cents per kilogramme; in the Baltic countries, they are even lower.

The EMB, in cooperation with its member organisations, commissioned a study of milk production costs, which provided the following result: In the main producer countries like Germany, France, the Netherlands, Belgium, Denmark and Italy, production costs stand uniformly between 40 and 50 cents per kilogramme.

Because of this cost-price discrepancy, thousands of farms are struggling to survive. Many are taking on new loans and falling further into debt. Innumerable farms have already given up milk production.

However, EU Agriculture Commissioner Phil Hogan's reaction to the situation is cynical. He recently said in an interview with private online channel viEUws, *"I don't think that many farmers are producing below the cost of production. They say they are but at the end of the day, they continue to produce. In any business, if you're producing below cost of production for a considerable period of time, it is going to create, obviously, difficulties for the business. But I don't see any evidence of that."*

Such statements are unbelievable and a slap in the face for milk producers throughout Europe. It is this mix of blind faith in markets, ignorance and arrogance clear to see in Hogan and other policymakers that is putting the livelihood of countless milk producers in the EU on the line.

On October 13 and 14, the EMB autumn assembly will be held in Montechiari, Italy. It is an opportunity to find a response to the behaviour of Hogan and his supporters. We EMB dairy farmers will not allow our livelihood to be destroyed by inept policymakers. It is in our common interest to fight for sustainable, small-scale farming - something that the people of Europe also support.

*Romuald Schaber, EMB President*

### EMB Newsletter October 2015



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## Danish production costs including a fair income now available

**In 2014 production costs in Denmark were 43,32 cents**

**© LDB**

*Current press release (29.9.2015):*

*Brussels (29.09.2015).* After Germany, France, Belgium and the Netherlands milk production costs have now also been calculated for Denmark, on the basis of EU data. According to the study carried out by the German BAL (Büro für Agrarsoziologie & Landwirtschaft), in 2014 total production costs of one kilogramme of milk in Denmark were 43,32 cents. After deducting subsidies of 4,33 cents the cost is 38,99 cents per kilogramme of milk in Denmark. The result includes a so-called income rate, which corresponds to the minimum value that self-employed dairy farmers – both farm managers and family workers – should include in their costs, depending on their professional qualifications. This approach distinguishes this study from the – unfortunately widespread – opinion according to which farm managers and family members working on a farm should hardly or only insufficiently be paid for their work.

The so-called price-cost ratio shows to which extent the current milk price covers production costs. In 2009 there was a shortfall of 38 per cent. Farmers had to wait until 2014 for their costs to be covered, following a drop in production costs and above all a higher milk price, i.e. 39,67 ct/kg. According to Kjartan Poulsen, President of the Danish dairy farmer association LDM, this was sorely needed, as in the previous years substantial deficits prevailed throughout the industry. "But the situation has significantly deteriorated again this year, as in Denmark as well milk prices are plummeting, reaching a level of currently only about 29 cents", says Poulsen.

The current EU policy has further fostered this development. No efficient measures are being taken to limit overproduction. This was shown once again at the last EU Agriculture Council in September. "In such times of crisis we need an instrument which prevents unnecessary volumes from being produced in the first place. The Market Responsibility Programme (MRP) is an example for such an instrument", explains Romuald Schaber, President of the European Milk Board (EMB). Tens of thousands of dairy farms in the EU are about to leave the industry. If we want to avoid a mass exodus, we have to implement the MRP. This is the EMB's key demand.

***Background***

The cost study jointly commissioned by LDM Denmark and the European Milk Board from the German BAL (Büro für Agrasoziologie und Landwirtschaft, Office for Agriculture and Agricultural Sociology) calculates the cost of milk production in Denmark. It is based on data from the European Commission's Farm Accountancy Data Network (FADN). To update the data, price indices of agricultural means of production such as feed, fertilizer, seeds and energy (Eurostat) were used, as well as a so-called income rate, which measures the work load of the farm managers and family members.

Based on the data of this study the Milk Marker Index (MMI) was developed, which shows the ongoing trend in production costs (base year 2010 = 100). The MMI for 2014 is 93 points. It is published together with a price-cost ratio. The latter shows the ratio of officially collected raw milk farm-gate prices and milk production costs.

*EMB press release*

Fact sheet - Milkproduction costs in Denmark

## Denmark: 86 percent of dairy farms show deficit

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According to an article in the Danish newspaper *Jyllands-Posten*, 86 percent of milk producers have severe cash-flow problems. The situation has slightly improved since the publication of the article (29.7.) due to an increase in organic milk prices, but the overall situation stays the same - dramatic.

The money is pouring out of Danish dairy farms. The situation is so serious that for the first time the industry’s own economists warn that Denmark's total milk production may decline. After several price reductions the milk price has reached a level that leaves 86 percent of milk producers with a cash shortage. This means that the already heavily indebted farmers have to borrow even more money from the bank to pay their current bills.

Of the 3,257 dairy farms, 2,811 now have cash-flow problems. Half of the farms show a deficit of at least 5 cent per litre of milk produced. 20% of the farms show a deficit of at least 9 cents per litre. After many hard years, a large number of dairy farms are on the point of collapse, all financial reserves are exhausted. The current deficit means that debt continues to grow on many farms. This increases interest costs, making it more difficult to generate profits.

According to experts, there is a significant risk that Danish milk production will decline if prices stay at the current very low level for some time. Right now many dairy farmers are under enormous pressure. “Production must decrease for prices to rise, and there is a great risk that dairy farms in Denmark will close. Our equities are depleted, and it is difficult to finance the current deficit. At the same time, we can see that some milk producers in other EU countries are helped through the crisis with government subsidies. It pushes us even closer to the edge”, says Kjartan Poulsen, Chairman of the National Association of Danish Dairy Farmers.

*Christen Sievertsen, LDM Denmark*

Article “86% of dairy farms show deficit” (in Danish)

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## France: Danone proposes taking production costs into account

According to the French news agency AFP, dairy giant Danone has asked the milk producers supplying their five factories in France to take their production costs into account when fixing the price of milk. However, this new formula to calculate price could be accompanied by a drop in the volume of milk bought from certain producers.

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Danone has initiated discussions with producer organisations in order to put forward concrete proposals. The price at which milk is bought by Danone is currently calculated on the basis of historical factors on one hand, and market indicators (butter and milk powder) on the other. Danone has further clarified that this proposal has two aspects: Producers have been asked to introduce their production costs into the price formula progressively over the next three years, starting from October 1. "At the same time, we will discuss an adjustment of our needs with them to ensure supply to our factories. The latter could lead to a reduction in volume purchased in certain cases."

For milk producers, this proposal is a step in the right direction. That this promising development is not regarded positively by the FNSEA is incomprehensible. According to FNSEA Vice-President Luc Smessaert, "Danone cannot be allowed to set too many conditions either" and he views the reduction in milk volume purchased by Danone as "problematic".

The proposals by the OPL, APLI and EMB regarding production costs are beginning to find an audience. This should hopefully also facilitate price negotiations carried out by the dairy producer organisations France Milk Board (FMB). Though it is still too early to claim victory as ours, this is a first step by private industry and must be welcomed. We have to continue working with all the EMB member organisations across Europe so that other dairies, cooperatives included, also follow suit. It is also necessary to ensure that fair and equitable remuneration for producers is baked into the cost of production on farms.

*Véronique Le Floc'h, President of OPL, France*

Article of the French Press Agency AFP (in French)

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## Switzerland: The dairy market caters to companies - not to farmers!

Swiss dairy farmers are still waiting for better times. The reference price for the protected domestic segment still stands at 68 centimes (approx. 62.20 euro cents); however, the milk prices actually paid are much lower. Dairy sector organisations are satisfied as the reference price has not been lowered.

Wholesalers might have accepted this benchmark and therefore not changed the price of milk in stores, but they are still making hefty profits: They regularly launch calls for supply tenders and take their pick from contesting dairies because it is clear that some or the other processor is willing to give in. While dairy products are made using cheap Grade B milk, prices are calculated on the basis of that of Grade A 2 milk[1] , much to the delight of wholesalers.

On the Swiss dairy market, prices swing up and down like in a bazaar. There is a clear milk shortage - the hot summer and many farms giving up milk production have both left their mark. Very high spot prices are currently being paid for "free" milk - every litre of milk is needed. However, farmers are experiencing no gains because of the reason behind these high prices: Dairy traders risk hefty fines for defaulting on their supply contracts. Since the expected volume of milk is not available, the shortfall has to be made up on the spot market. Price is of no concern, as it is still preferable to meet contractual obligations with very expensive milk rather than to cough up contractual penalties. As farmers only get what dairy traders have left for them, they end up paying twice - if they have too much milk, the price plummets; if they have too little, they too must shoulder the burden of contractual penalties.

Farmers are ready to pull out their hair. Supply volumes are dropping - production in Switzerland is currently 5% below the previous year. There is a dearth of milk and still prices remain at impossibly low levels for farmers. In fact, Hochdorf Nutritec AG, one of the four largest dairies, has petitioned the Federal Government to import 800 million litres of milk for the production of milk powder. This inevitably leads to questions: Production costs in Switzerland are three times those in Germany. How can Hochdorf then hope to sell this milk powder abroad without federal subsidies? Could it be that Hochdorf's Swiss milk suppliers are cross-financing this processing activity?

The dairy market is anything but transparent. One of the main reasons for this is surely the fact that farmers sell their milk through more than 30 different dairy trading organisations. These structures have already been around for 10 years and are securely anchored. However, it is currently of utmost importance that all milk be sold through one single entity.

This could finally bring an end to the ridiculous situation where vans from three different dairy traders visit individual villages to collect milk.

*[1] Even if an A-price is officially decided, many different prices are still paid for A-milk. For me the official A-price is the A1-price. But there is also an A2-, A3-price etc., which are a bit lower. Because everyone tries to get rid of their cheap B-milk in the A-segment.*

*Werner Locher, Secretary BIG-M*

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## Why compulsory preferential sale in cooperative statutes is a problem

Compulsory preferential sale, which has been historically derived from the provisions of the Milk Law of 1930 and was meant to address the mismanagement and hygiene issues concerning commercial milk, is now obsolete. Monopoly and competition regulations are calling for a necessary overhaul of this existing practice.



The Bundeskartellamt (BKartA), Germany's competition authority has repeatedly rebuked compulsory preferential sale in its 2012 Dairy Sector Report because it is detrimental to competition. It believes that stringent supply obligations and long notice periods lead to market foreclosure effects. Members of the cooperative are basically prohibited from reacting appropriately to market trends. Economically-necessary, quick changes from one dairy to another are practically impossible.

With the possibility of free production due to the abolishment of milk quotas, policymakers have been especially insistent that a true free market and the resulting competition also become a reality. At the moment, this is simply impossible due to compulsory preferential sale. While cooperative members have no influence on contracts, cooperative dairies do not have to compete in any way for their supply of valuable cow milk.

Compulsory preferential sale is caught in the tension between the demands of monopoly and competition law on one hand, and the statutory independence of cooperatives on the other. This conflict can only be resolved if competition requirements are given precedence over statutory conditions.

The abolishment of compulsory preferential sale must go hand in hand with contractually-bound milk production. Such binding contracts, which have already been foreseen in the EU Milk Package and are to be regulated by Member States, must include minimum requirements like volume, duration of contract, price and quality. Only then can cooperatives and cooperative members plan competitively.

The standing argument that compulsory preferential sale comes with a purchase obligation, thus leading to greater security for cooperative members, does not hold water. A contract with the abovementioned clauses would offer members the same assurances as a cooperative system governed by compulsory preferential sale.

All in all, there is no justification for compulsory preferential sale. It only deters competition. Policymakers must comply with the requirements of monopoly law at national and European level.

*Rainer v. Hößlin, MEG Milch Board w. V.*

## News from Brussels

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**EU proposes new arbitration system in dispute over TTIP**

EU Trade Commissioner Malmström is looking to replace the controversial ISDS, a private arbitration mechanism for disputes between companies and countries, with a more transparent system, where EU Member States and USA will together appoint independent judges to a new investment court. For the first time, a court of second instance that would deal with appeals has also been envisaged.

The Investor-State Dispute Settlement (ISDS) is one of the main reasons behind the massive resistance in Europe to the TTIP. The main concerns are that it could award damages to corporations at the expense of tax payers, circumvent national legislation or push through lower consumer protection and environmental standards. The next round of negotiations between the EU and the US is scheduled for October 19-23 in Miami.

**International action days: October 10-17, 2015**

Civil society organisations, trade unions, farmers and grassroots movements on both sides of the Atlantic reject the TTIP, CETA, TiSA and TPP. On the international action days, they want to send a clear signal against four trade and investment partnerships that threaten democratic rights, non-dependent food production, jobs and the environment - TTIP (Transatlantic Trade and Investment Partnership between USA and the EU), TPP (Transpacific Partnership between USA, Canada and a number of Asian countries), TiSA (Trade in Services Agreement) and CETA (Comprehensive Economic and Trade Agreement between the EU and Canada).

**Overview of the action days:**

- 6 Oct: Signature campaign of the independent European Citizens' Initiative against TTIP and CETA has ended. 3,263,920 signatures have been collected.
- 10 Oct: Main action day - decentralised events and protests in different countries. Mass rallies will be held in a number of EU Member States like Germany and the Netherlands.
- Oct 13-17: No TTIP Camp, Brussels, Belgium.
- Oct 14: US Climate Action Day
- Oct 15-17: Protests in Brussels against the EU Summit and arrival of marches across Europe.

**9th meeting of the EU Milk Market Observatory (September 23, 2015)**

Representatives from DG Agri, the dairy industry, traders as also milk producers have presented the latest figures for the dairy market. Milk production in Europe has increased 1.1% in the first 7 months as compared to 2014. In the 4 months since the end of milk quotas, production has increased by 2.8% as compared to the previous year. Experts predict a moderate increase of 0.9% for 2016.

Private storage has been petitioned for over 150,000 tonnes butter and almost 50,000 tonnes skimmed milk powder. The volume of SMP offered in terms of intervention has reached close to 20,000 tonnes. Majority of these stocks have come from Belgium (7,625t), Lithuania (4,608t), Poland (2,572t) and Ireland (1,633t). France contributed a further 169 tonnes 3 weeks ago.

Prices for skimmed and whole milk powder, butter and cheese are showing a slight upward trend. Industry is being cautiously optimistic, though "there is too much milk on the world market and it will be a while before supply and demand align once again." The European Commission welcomes the rise in international milk price on Fonterra's Global Dairy Trade auction platform in New Zealand. However, the rise is price is attributed to the clearly reduced volume, the lower than expected production (-2 to -3%) for 2015/2016 and the exceptionally high number of cows slaughtered in recent months.

Presentations from MMO meeting on September 23

*Regina Reiterer, EMB*

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