Dear dairy farmers and interested parties,

The National Association of Danish Dairy Farmers (LDM) welcomes the fact that the EU has adopted a reduction scheme for milk production in the EU. Unfortunately, only a part of the total package has been earmarked for volume reduction. LDM would prefer the full amount of 500 million euros to be spent on a common EU reduction scheme. LDM predicts that few farmers will be interested in reducing production, but some might be interested in leaving it.

The industry fears a lack of raw material, but the general view among dairy farmers has turned in favour of stopping and reducing production, yet it is an uphill struggle when the entire established system is set on growth, growth, and more growth. Denmark's largest dairy, Arla Foods, has also realised that the only way to higher prices is a decrease in production, but like the other European dairies they prefer their competitors to reduce volumes.

The situation in Denmark is very serious. More than 100 of approximately 3,000 Danish dairy farmers have been forced to sell their farm by their bank or declared bankrupt. Furthermore, it is estimated that about 400 farms are on the verge of bankruptcy and a further 300 will hardly be able to survive in the long term. The milk supply in Denmark is declining rapidly at the moment and now the 2016 milk volume is expected to be at the level of 2015 or below. The milk supplied in 2015 was considerably higher than in 2014. Since the New Year, Arla Foods has lowered its estimate for the total 2016 milk volume several times.

Will a reduction scheme help, then? Yes, the combined effect of both the reduction scheme and the decrease in milk supply will be noticeable, and together with the already slightly rising world market prices the National Association of Danish Dairy Farmers is both hoping for and expecting a noticeable increase in milk prices.

A Danish research company predicts a total milk price including supplementary payments of 32 cents before the New Year. LDM hopes that this turns out to be an underestimate.

Kjartan Poulsen, EMB board member and president of LDM Denmark

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Shift of direction of EU milk policy: milk volumes to be cut

The aid package adopted in July marks a turning point in the EU milk policy. After several failed attempts, the measures for voluntary production cuts finally focus on the production side. End of August, the EU Commission finalised the details of the aid package.

The restraint on supply – a demand which the EMB has been presenting to EU politicians and national Ministers of Agriculture for years – is a crucial factor in countering overproduction and a collapse in prices. Romuald Schaber, President of the European Milk Board, is relieved that with the restraint on supply EU policy-makers have finally given dairy farmers a potential instrument. “We welcome the measures adopted by the EU Commission and Ministers of Agriculture.” Although the concrete drafting of the measures could be improved, they do represent a step forwards for dairy farmers, he says. The European Milk Board regrets above all the lacking systematic European-wide implementation of the production cuts and an adequate budget. Schaber continues: “One stumbling block is that the production volumes of all EU Member States are not capped during the reduction period, and that the compensation payments are very low.”

“It is now even more important for the Member States to also apply the funds from the 350-million-euro package for additional reductions in volume, so as to enable an impact on the milk market.” Europe needs its farmers! A rapid rise in milk prices is indispensable for the survival of European farms.

EMB press release (29 August 2016)

Production reduction using the EU aid package - practical information

At the end of August, the European Commission published details about the 500-million euro aid package. For the first time since the beginning of the crisis, the Commission is finally going to address aspects linked to production and reduce milk delivery volumes.

On one hand, dairy farmers can use the EU aid package to apply for compensation for delivery reduction (14 ct/kg from the 150-million euro package). The dairy sector can also receive support in the form of adjustment aid for Member States (aid package of 350 million euros).

Incentives for milk production reduction (150 million euros package)

During a 3-month period, European milk producers can voluntarily reduce their production volumes. Compensation of 14 cents per kg reduced milk as compared to the 3-month reference period of the previous year shall be paid. There are 4 possible reduction periods, provided that the total reduction volume of 1.07 million tonnes is not allocated beforehand:

1st reduction period: October 2016 to December 2016
2nd reduction period: November 2016 to January 2017
3rd reduction period: December 2016 to February 2017
4th reduction period: January 2017 to March 2017

The aid application for the first reduction period must be submitted online to the competent national agency by 21 September.

Application/Payment

The planned delivery reduction must be at least 1,500kg and cannot be more than 50% of the delivery volume from the corresponding reference period in the previous year. Approved applicants must have documents indicating delivery up to July 2016. The aid application must be accompanied by documents indicating the total reference volume and details about the planned volume of milk delivery reduction.

The Member States shall communicate authorisations to applicants within 7 working days following the time limit. If the aggregated volume exceeds the maximum total volume, the Commission shall fix an allocation coefficient. If an allocation coefficient is fixed, it shall no longer be possible to submit applications for the subsequent reduction periods.

Participating milk producers must submit an application for payment within 45 days after the end of the applicable reduction period (14 February for the 1st reduction period). Documents attesting to the actual delivery reduction must be provided at this stage itself.

Payment shall be made by the national payment agency no later than the 90th day following the end of the reduction period. The aid amount shall only correspond to the authorised quantity and cover the actual delivery reduction.

- Where the actual milk delivery reduction is 50-80% of the planned quantity, the aid amount shall be multiplied by a coefficient of 0.8 (= 11.2 ct/kg)

- Where the actual milk delivery reduction is 20-50% of the planned quantity, the aid amount shall be multiplied by a coefficient of 0.5 (7 ct/kg)

- Where the actual milk delivery reduction is less than 20% of the planned quantity, no aid shall be paid.

Adjustment aid for the dairy sector (350 million euros package)

The Member States may use the allocated adjustment aid towards **production reduction or not increasing production** . Member States may also complement this allocation with national funds up to 100% and thus double the support for farmers. Member States shall notify the Commission of the concrete measures no later than 30 November.

France has already announced that they will complement the 14 cents for delivery reduction with a further 10 cents. Producers who reduce their volume between October and December 2016 by 5% as compared to the reference period from the previous year will thus receive a total 24 cents per kg reduced milk. Reductions above 5% will be compensated at 14 cents per kg.

One can only hope that Member States will grant national aid for additional volume reduction to ensure a real effect on the dairy market.

Regina Reiterer, EMB

EU aid package - structured to essentially be a programme to phase out dairy farming?

With part of the EU aid package being allocated towards volume reduction measures, the European Commission, the EU Agriculture Council as well as Federal Minister Christian Schmidt have decided to allow and promote state intervention to enforce volume discipline - something that was considered an extreme taboo for a long time.

Even in terms of supplementing EU funds with national aid, Federal Minister Schmidt doubled national aid from 58 million euros to 116 million euros, thus using his available room for manoeuvre to the fullest.

Dairy farmers can only be truly satisfied when the package is structured in a way that it leads to real relief in the market and creates liquidity, most importantly on those farms interested in continuing with dairy farming. This is precisely the sticking point that emerges when you look at the details regarding the composition of the aid package.

At EU level, 150 million euros are to be used to reduce EU milk production by 1.07 million tonnes. Farmers can apply to receive 14 cents for every kilogramme of milk they do not produce in a three-month production reduction period, as compared to a reference period in the previous year. Farmers can choose from four three-month reduction periods; however, each farmer is only allowed to apply for one period. With a milk price of about 20 cents, only farms that give up milk production can actually profit from such a programme.

By doubling the aid provided by the EU at national level to 116 million euros, the Federal Government is trying to create liquidity for farms and promote greater volume discipline on the market. Federal Minister Schmidt has said that the budget could accommodate a bonus for farms that have either maintained or reduced their production as compared to a reference period - something that warrants further examination. In this case as well, the actual implementation will nonetheless play a key role in whether this goal is achieved.

In the opinion of the BDM, the following points will be decisive in this regard in the short term:

- Financial aid must be used in its fullest scope for volume reduction.
- The envisaged sum of 14 cents/kg of milk for production reduction must be significantly increased.
- The funds must not be distributed indiscriminately but should be used in as targeted a fashion as possible.
- Liquidity loans should only be available to farms that plan to continue production.
- Measures for binding volume reduction must be drawn up, if this aid package too fails to have the envisaged effect on the market.
- A uniform approach needs to be adopted at federal level and it should not be left to the discretion of individual federal states to choose if and how they wish to participate in the adopted measures.
- Even though it is clear that this is not going to be implemented together with the currently adopted measures: Milk volume at EU level has to be capped even for those producers who have not applied for any production reductions. This is the only way to ensure that the undertaken production reductions are not cancelled out by overproduction by others.

The future of dairy farming can only be secured if new, effective crisis instruments, which are urgently needed, allow for forward-looking and timely reactions to market crises. The EMB's Market Responsibility Programme allows significantly earlier intervention and can prevent dairy farmers from incurring such immense losses - therefore, its implementation must be brought on track in the coming months.

Extract from the BDM press release (17 August 2016)

Denmark: LDM is hoping for cessation aid

Dairy farmers, the dairy industry, and the politicians finally agree that the way to better milk prices is to produce less milk. However, the agreement ends fast when it comes to where the reduction has to take place and by whom. Everybody agrees on reduction, but preferably without any personal consequences.

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At last the EU has granted an amount as compensation for the reduction in milk volumes, but it is still only a very small amount for a minor reduction.The first hurdle is accepting that production in one's own country also has to be reduced. It is easy to point fingers at foreign dairy farmers, but not as easy to accept a reduction in one's own backyard.

The next issue is how to reduce production and how to compensate for this reduction without introducing new national quotas. The obvious answer would be to accept that everybody reduces production by a few per cent, but this means new quotas that do not have any political support. The second and less effective decision would be to make the reduction rate voluntary to a certain extent. The EU reduction scheme allows for compensation for a reduction of up to 50 per cent. No more.

The National Association of Danish Dairy Farmers (LDM) has suggested compensation for farmers interested in leaving milk production altogether. In every country, dairy farmers are ceasing milk production and it would probably be possible to accelerate their decision by a year or two with the right compensation. In Denmark (and perhaps also in other countries), that kind of reduction support would probably produce the greatest effect. With only a limited amount granted for reduction, there is no reason to fear that an uncontrollable number of farms would leave milk production. However, it is difficult to gain support when all other countries want to keep all their dairy farmers.

On account of high hourly wage rates, milk production in Denmark is primarily based on high fixed costs and correspondingly low variable costs. Therefore, it makes no financial sense to reduce production when farmers still have to pay the fixed costs. At production costs of, for instance, 40 cents in total, of which 30 cents are fixed and 10 cents are variable, a temporary reduction would increase deficits when the farmer receives 14 cents in compensation instead of a milk price of 22 cents, even though the total production is making losses. In addition, the farmers reduce their possibilities of benefiting from any future price increases.

Therefore, LDM has argued that the compensation should apply to cessation as well, but our arguments fell on deaf ears. Instead, LDM has suggested that the Danish package is spent as a supplement scheme, so that farmers can stop producing milk in return for compensation for the entire production of the previous year. However, it is an uphill struggle to argue our case when milk producers in other countries are partially freewheeling by reducing their production on a temporary basis only.

National Association of Danish Dairy Farmers (LDM)

Lithuania: less milk, less cows & farms closing

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In Lithuania, the volume of milk has been continually decreasing for the past two months and is in decline compared to the same period 2015 and even 2014. During the first seven months of this year, the volume of milk sold for processing decreased by 1 percent compared to the same period 2015.

Although the price drop has halted, the farm-gate price in July 2016 was 15.2 percent lower than in July 2015. The average price for raw milk with 3.96% fat and 3.21% protein content currently is 16.93 cent per kg. The number of cows is rapidly reducing – in July the number of dairy cows fell by 1700 (0,6 percent in a single month!).

Farmers keep quitting milk production. Some reduce their herds, and some farms quit dairy farming altogether. Our government has approved funds totalling € 11 million to top up the € 13 million granted by the EU. LPGA is struggling to increase this amount to € 13 million, i.e. to match the EU funds.

Eimantas Bicius, LPGA Lithuania

Interview: "We are financing the conquest of international markets by dairies"

Interview with Ottmar Ilchmann, dairy farmer from Lower Saxony and Deputy Federal Chairman of the Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL), published on July 7, 2016.

© AbL

You have helped organise numerous demonstrations in front of Germany's biggest dairy "Deutsches Milchkontor" (DMK) and even blocked the entry for a number of hours on one occasion. Why are farmers protesting in front of these dairies?

We are facing a crisis that has put our livelihood on the line; for over one and a half years now milk prices have not been covering costs. Cooperative dairies, which actually belong to farmers, are however hardly affected by the crisis as they are companies and simply pass on these low prices to their suppliers. They refuse to use the politically-determined measures for volume reduction to make prices rise again. The survival of their members and suppliers is of no concern to them. Therefore, farmers are fully justified in highlighting this mistreatment by demonstrating in front of these dairies. The DMK, which is large enough to dominate the market, has a special responsibility in this regard and we therefore take them especially to task.

However, dairies are complaining that exports have plummeted. Isn't that force majeure?

The Russian embargo and the drop in demand in China did, in fact, lead to the loss of significant markets. But at the same time, dairies have increased exports to other regions, such that the export volume in the crisis year 2015 has actually risen. This comes as no surprise, as the extremely low raw milk prices lead to us dairy farmers helping dairies expand their exports! We are financing the conquest of international market share by dairies, at the price of our farms!

The German Farmer's Association (DBV) says that the food retail industry is to blame. After all, Aldi dropped milk prices to 49 cents just a few weeks ago.

A milk price below 50 cents - the cheapest offers at the moment are 42 cents - is immoral and degrading. There is no doubt that large retail chains capitalise on their strong market position as well as the milk surplus to squeeze dairies in terms of price. On the other hand, however, they would not have this negotiating position without the pressure of surplus volumes in the first place. Even in 2013 and 2014, which were boom years, they easily paid significantly higher prices.

But it is currently the dairies who have pushed these volumes upwards and now do not want to lower them, while offering immorally low prices to food retailers!

Why is this milk crisis so unusual?

This crisis has been the longest in the recent history of milk production. The year 2009 was also difficult, but after nine months, things started to recover. The current crisis is clearly a result of the phase-out of milk quotas. When the low prices force milk producers to give up and dispose off their farms, growing farms take over the land and herds and continue to supply milk. This was prevented in 2009 by the quotas. It is also unusual how categorically politicians, agricultural "economists", representatives from farmers' associations and dairies are now endorsing a "market adjustment" in light of the crisis and are supporting a structural change. A transition from an agricultural to an industrialised dairy sector is now being openly promoted. The interests of farmers and other sections of society are thus being placed below those of food industry.

Thank you for speaking to us! ?

Berit Thomsen, ?Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL)

Canadian farmer's union advises Hogan to adopt Canadian model for volume regulation

NFU

At the end of July, the President of Canada's National Farmer's Union reached out to EU Agriculture Commissioner Phil Hogan in a letter: Jan Slomp encouraged the Agriculture Commissioner to implement a volume regulation system in Europe similar to the Canadian model in order to bring the crisis affecting European milk producers to an end.

"We feel for European farmers. The parents of the current generation of dairy farmers in Canada faced similar tough times in the mid-20th century," says Slomp. He proposes the volume management system developed by Canadian farmers and politicians, which has clearly proved its worth over the last 50 years. Supply regulation in Canada protects the interests of milk producers, processors and consumers without creating a burden for the public administration. Dairy farmers receive prices that cover their costs; milk processors are ensured milk supply at predictable prices. Consumers, for their part, enjoy high-quality products and do not have to deal with any bottlenecks. Furthermore, this model operates without any public subsidies.

According to Slomp, the model is based on three pillars: import controls, production discipline and a pricing policy that covers costs. Farmers must accept a binding production volume that is aligned with demand. The Canadian dairy sector is doing well and the average herd size has positive effects on the environment and on animal welfare. In addition to the economic contribution, milk volume regulation promotes employment in rural areas and thus quality of life and social cohesion.

"The crisis can be used as a opportunity to find creative solutions," says Slomp. He encourages Agriculture Commissioner Hogan to implement a regulation system in Europe similar to the one operating in Canada, so as to improve the income and reality of European milk producers.

Letter on EU dairy crisis sent to EU Agriculture Commissioner Hogan from July 22

Regina Reiterer, EMB

Brussels and international news

Voting soon on CETA – September days of action

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CETA, the agreement with Canada whose negotiations have already been completed, is to be signed in October. The EU Ministers of Trade are meeting in Bratislava on 22 and 23 September to pave the way for the signing of the CETA treaty.

The EU Council is currently deliberating at the working group stage on which parts of CETA can be applied for the time being. The Stop TTIP movement intends to put as big a spanner as possible in the works to prevent a positive decision from the Council. That is why there will be campaigns of action in several countries in September, e.g.

- 17.9: Germany and Austria
- 20.9: Belgium
- 22.-23.9: Bratislava

Background info on CETA and TTIP

Portugal plans compulsory labelling for dairy products

A new draft regulation provides for compulsory labelling of dairy products. Dairy produce sold in Portugal, including milk, butter, cream, buttermilk, yoghurt and cheese, will be obliged to indicate the origin of the milk under the new draft regulation. This move follows the introduction of mandatory origin labelling in France, where new rules covering compulsory labelling for dairy products and meat in processed products are set to apply for a two-year test period from 1 January 2017.

Other countries such as Italy, Spain, Lithuania and Romania are also looking at introducing similar schemes, which must obtain green light from the Commission. Providing information on the origin of dairy products and meat used in processed foodstuffs is voluntary in the EU.

Report on "Fair Milk Belgium" on Vietnam TV

The interest for the EMB's Fair Milk concept has reached Southeast Asia. The Vietnamese TV recently showed a report on the Belgian Fair Milk project. Milk production und trade are not very developed in Vietnam. The example of the Belgian Fair Milk farmers aimed at serving as a source of ideas and inspiration for Vietnamese milk producers.

Reportage

Regina Reiterer, EMB

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