Dear dairy farmers and interested parties,

Prices are rising, dairy farmers are back on track - This is the tone of articles currently doing the rounds in the European press.

However, as the latest EMB milk price comparison shows, farm-gate prices paid by European dairies have, in fact, hardly changed and have continued to languish in an all-too-slow upward trend over the last four months. In light of this sluggish price rise, it is in no way justified, from a producer point of view, to say that the dairy crisis has ended. It would also be short-sighted to believe that the market will correct itself and farm-gate prices will thus reach a cost-covering level. Over 350,000 tonnes of skimmed milk powder are currently in public storage and will exert pressure on the milk price sooner or later. The EMB has already made it clear to Agriculture Commission Hogan that this intervention milk powder cannot come back to haunt dairy farmers. German milk producers are currently staging a number of milk powder demonstrations against intervention as it is a "crisis instrument gone wrong". You can read more on the background for these demonstrations in this issue.

The market situation in Italy has brought about a slight recovery in farm-gate milk prices in the last six months, rising from 34/35 cents in February to 38/39 cents in August 2017. Production has remained on a par with 2016 levels, albeit with a decrease in July and August as a result of the severe heat in the north and south of the country. Cheese prices have stagnated, especially for matured cheese varieties like Grana Padano, currently fetching low prices on the level of 2016. The spot market price for milk has risen sharply, from 36/38 cents in June to nearly 45 cents in August. Forecasts predict stable production until late autumn, with a decrease conceivable in view of the severe heat in the summer. Prices paid to producers in the market with direct contracts (not spot prices) are said to rise to over 40 cents from September/October. The long period of drought and the severe heat have resulted in increases in the cost of raw materials such as corn and hay, driving up production costs. At present the average production costs of milk in the north of Italy are 46 cents...

The aim of the European Milk Board is to achieve cost-covering prices for Europe's dairy farmers. Temporary production cuts, as proposed in our Market Responsibility Programme, allow for price recovery and thus liquidity on our farms during crises.

Roberto Cavaliere, EMB Board member and president of APL Italy

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Agriculture Ministers want to improve current crisis instruments

European Agriculture Ministers have shown moral support for farmers and their situation. At the informal Agriculture Council in Tallinn (3 to 5 September), it was noted that the current CAP does not include adequate crisis instruments and that farmers cannot be left to fend for themselves when it comes to risk management. It is, however, still not possible to derive concrete results or measures from these statements.

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The main topic at the Ministerial Council was risk management, to provide farmers with effective instruments that would allow them to overcome risks post 2020. The Ministers agreed that the current crisis reserve need to be reworked and the system needs to be more dynamic and flexible. The important role of direct payments in ensuring a stable income for farmers was highlighted. However, the Ministers were divided on the issue of direct payments of Member States being aligned.

In the lead-up to this meeting, the European Milk Board sent the European Agriculture Ministers an analysis of the existing crisis instruments, evaluating their effectiveness in bringing about market stability, as well as a Strategy Document for a Sustainable and Stable CAP. Instruments must attack the root of the problem - the volume of raw milk produced. As soon as a market imbalance is detected, incentives for production reduction should be provided.

The European Committee of the Regions (CoR) hits the same notes in their latest opinion. The regional and local representatives of the European Union have warned the Agriculture Ministers that agricultural markets must be regulated in order to use the available budgetary resources more effectively. According to CoR President Karl-Heinz Lambertz, regulation is necessary "not only to prevent crises, but also because it is much cheaper in the long-term, rather than having to intervene in the aftermath." He says that this is the lesson to be drawn from the recurring crises in the dairy sector in recent years. According to Lambertz, the drastic increase in milk powder in storage to 355,000 tonnes could have been avoided if measures toward voluntary production cuts had been implemented earlier.

In its opinion, the Committee of the Regions also states that private risk management instruments like futures markets and income insurance cannot replace public regulation, especially when markets themselves are weak. In such a situation, the insurance rules prop up the income of insurers rather than farmers, as can be seen, for example, in the USA. In the event of a price collapse, the public sector must intervene with funding, while being unable to prevent price volatility.

EU Agriculture Commissioner Hogan is advocating the further development and improvement of current crisis instruments. Must there be another price collapse for it to become clear that the available measures cannot do much when faced with milk surpluses? It is now important for the call for volume reduction during times to crisis to find its way into the CAP reform. To be able to do their job, dairy farmers need the correct instruments.

Regina Reiterer, EMB

See also our press release of 31 August 2017: „European Milk Board (EMB) presents food-for-thought paper on CAP reform"

Milk powder demonstrations in the lead-up to Bundestag elections in Germany

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Farmers of the German dairy farmers' association (BDM) are going to stage a number of "milk powder demonstrations" in different Federal States over the coming weeks, under the slogan **"Market Responsibility instead of Milk Powder Madness"**. The aim is to make the issue of milk powder a leading media topic by throwing it into the political arena in the course of campaigning for the Bundestag elections (24 September 2017).

On 25 August, the dairy farmers held their first "milk powder demonstration" in Bavaria, at the same time as Federal Chancellor Angela Merkel's appearance on the campaign trail. Further rallies followed in Hesse, Bonn and Schleswig-Holstein. More events are currently being planned to ensure media coverage throughout the Bundestag elections and the coalition negotiations, and to coincide with Chancellor Merkel and her challenger Mr. Schulz at multiple locations during their campaigns. The highlight of the milk powder demonstrations will be the closing event that will take place on 9 October 2017 in front of the State Chancellery in Munich.

Slogan:

- Market Responsibility instead of Milk Powder Madness

Our message:

- Money is squandered to store huge amounts of milk powder that continues to

exert pressure on milk prices and comes back to haunt dairy farmers.

Our demands:

- Reduce milk surpluses during times of crisis instead of offering excessive storage!
- Reduce milk powder mountains now without negative market effects!
- Implement the EMB Market Responsibility Programme as a permanent feature of the safety net for the EU dairy market!

Our proven arguments:

The volume reduction programme has shown that our tool

- has the desired effect on the market
- involves minimal red tape
- can achieve majority support at political level
- enjoys the approval of dairy farmers
- can make volume planning possible.

Video and photos of the rallies

Johannes Fritz, BDM Germany

Study: Dairy industry was unable to sell additional milk volumes adequately

The study "Milk Market Review" was carried out due to the violent collapse of farm-gate prices in Germany during the most recent milk crisis in 2015 and 2016, as well to find out whether this was unavoidable considering market conditions. Prices did not plummet so drastically in other EU countries.

The *Büro für Agrarsoziologie und Landwirtschaft* was commissioned by producer organisation MEG Milch Board to investigate further by analysing the market for different milk products on the basis of available market data. However, they also looked at milk volumes, product flows in the EU and in third countries, farm-gate prices in the EU and much more.

One can summarise as follows:

- In terms of sales, the dairy industry was not prepared for the increase in supply volumes.
- The milk surpluses accrued between 2013 and 2015 could not be dealt with solely by export to third countries.
- They were mainly pushed on to the already saturated EU internal market as "cheap cheese".
- This flood of cheap products from Germany led to very significant decreases in export prices as compared to other EU countries, and was a decisive factor in the extreme drop in producer prices in Germany.
- The substantial volume increase, coupled with very poor value creation with regards to all important export products, contributed to a price collapse.
- Milk surpluses were "sold off" for the smallest of profits, without any regard for falling producer prices.
- The resulting competition for market share led to German producer prices unnecessarily falling even further as compared to other EU countries.

Conclusions:

The crisis was thus triggered by milk production that was not aligned with market needs. The position of the MEG Milch Board w.V. presented in the "RoadMap Milch & Markt" over two years ago remains very relevant even today. Their key demands refer to contractually fixed milk volume, quality, term of contract as well as milk supply price. No litre should be left on the farm, if the listed criteria are not contractually determined. Implementing milk sales on the basis of contracts, as set out in the RoadMap Milch & Markt, would have, at the very least, tempered the crisis. This is what we have to continue to fight for!

Brochure "Marktreview Milch" and study "Marktreview Milk" (in German)

MEG Milch Board Press release of 20 July 2017

EMB milk price comparison: minimal changes in milk prices

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Lack of movement – farm-gate prices paid by European dairies have been stuck in a languishing upward trend over the last four months. This is the main conclusion of the latest EMB milk price comparison for the period April to July 2017.

Barring one exception, none of the European dairies included in the comparison were able to increase farm-gate prices for milk by more than three cents since March. The highest farm-gate prices were recorded for a dairy in the Netherlands and in Italy (36.57 cents and 37.07 cents per kilogram, respectively). Prices in Austria continued to remain below the 30-cent mark for all applicable months. The sudden and long-drawn-out collapse of farm-gate prices was thus not compensated by a sharp peak in the same. The farm-gate price for conventional milk was over 35 cents per kilogram in very few cases and therefore, mostly below the cost-covering threshold.

Considering the very slow increase in prices, there is no way, from a producer point of view, to claim that the producer price crisis has ended. In fact, this begs a different question: How much longer would dairy farmers have had to suffer due to extreme rock-bottom prices, had the EU not finally reacted in October with the volume reduction programme?

Furthermore, the discrepancy in basic price of almost 6 cents per kilogramme for organic milk in Belgium truly stands out in this latest comparison. A representative comparison of developments in the price of organic milk, however, would only be possible if additional farms from other European countries were to participate.

EMB Milk price comparison (April to July 2017)

Karin Jürgens, BAL (German Office for Agriculture and Agricultural Sociology)

Background: The EMB milk price comparison has been recently reworked to ensure better comparability of farm-gate milk price within Europe. The updated calculation template shows the farm-gate price with and without dairy-specific surcharges and reductions. Standard values have been set at 4.0% fat and 3.4% protein.

Belgian farm-gate milk price covers only 65 percent of production costs

A recent cost study shows that the costs of milk production in Belgium in 2016 were 41.37 cents/kg. As the farm-gate prices for milk were only 26.70 cents, this means only 65% of production costs were covered in 2016.

The study, jointly commissioned by the European Milk Board (EMB) and the Belgian Dairy Farmers' Association (*Milcherzeuger-Interessengemeinschaft* - MIG), calculates the current costs of milk production based on EU data and also takes into account the work input of the farm manager and family members working on the farm.

Milk production costs in recent years: no fair income for dairy farmers

Because farm-gate prices fell during the milk crisis of 2015, there was a 35% shortfall in coverage of production costs. In the last five years, in no year has a farm-gate price level been achieved that would have assured the dairy farmers of at least an adequate income.

Erwin Schöpges, EMB Board member from Belgium, comments on the rise in milk production costs in recent years: "We dairy farmers are all painfully aware day in, day out, that we are losing out across the board. For me the question is how long we can still carry on, when you see that in the last five years our production costs have not been covered and we are practically only running on reserve."

The development of milk production costs under the shadow of the milk crisis

Manifestly lower depreciation and interest paid show that scarcely any new investments were possible. Furthermore, the subsidies paid out to dairy farms in 2016 were only 2.27 cents a kilo, meaning they had decreased by more than 2 cents/kg milk in the last three years. Given the price-cost gap of almost 15 cents, the subsidies can barely help secure the farms' annual income. The current study makes it clear that the milk production costs must be covered by the farm-gate price.

"The results lay the hard facts on the table for all to see, and should make a few sit up", says Christian Wiertz, vice-president of the Belgian Dairy Farmers' Association MIG. "It must be evident from this to our politicians and the sector that despite working around the clock Belgian dairy farmers cannot even cover their costs, let alone generate an income."

What are the European Milk Board's demands?

Milk prices are currently recovering, thanks to the EU-wide volume reduction programme – yet Europe's dairy farmers are far from achieving cost-covering prices. The voluntary volume reduction scheme has clearly shown that the milk market can only be stabilised by managing supply. As the umbrella organisation of European milk producers, we call for our Market Responsibility Programme (MRP) to be enshrined by law in the Common Agricultural Policy. In times of market turbulence, this crisis instrument automatically triggers off stabilisation measures such as voluntary production cuts. This enables the EU to get to grips with the milk market's chronic crises.

Background:

The cost study, jointly commissioned by the European Milk Board (EMB) and the MIG from BAL (German Office for Agriculture and Agricultural Sociology) calculates the costs of producing milk throughout Belgium. It is based firstly on current data from the European Commission's Farm Accountancy Data Network (FADN), and secondly, to update those data, on the Eurostat's price indices for agricultural means of production like feed, fertilisers, seed and energy, and uses an income rate that calculates the performance of farm managers and family members.

Data sheet (EN)

EMB press release of 2 September 2017

How the post-Brexit trade deal will affect British farmers

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The UK's Brexit deal could be a make or break scenario for Britain's farmers, according to a study published by the Agri-Food and Biosciences Institute (AFBI). The independent study analysed the impact of three different post-Brexit trade scenarios on agricultural commodity prices in the UK, the volumes farmers produce and the prices they command.

The three post-Brexit scenarios analysed by the think tank were: a favourable bespoke free trade agreement with the EU, a switch to World Trade Organisation (WTO) rules with Most Favoured Nation (MFN)[1] tariffs and unilateral trade liberalisation.

Szenario 1: Favourable free trade agreement with the EU

Britain's Brexit negotiating team is aiming to strike a free trade agreement (FTA) with Brussels as soon as possible after leaving the EU. This would allow the UK to negotiate its own trade agreements with other countries while retaining many of the benefits of free trade with the bloc's 27 countries, such as tariff and quota free access to the single market.

Under a bespoke FTA scenario, the prices received by farmers for their goods (producer price) would remain largely unchanged, varying from -1% to +3% depending on the commodity. According to the study, this would not be enough to cause significant changes to the total quantity or value of British farm produce. Nor would it have a major impact on consumer prices. However, it may not be possible to negotiate such an in-depth deal in the time available, and farmers are demanding certainty.

Szenario 2: WTO rules a mixed bag

If EU and British negotiators fail to reach a post-Brexit trade agreement before the talks end on 29 March 2019, all UK-EU trade will revert to WTO rules. Britain currently imports about 40% of its food and its biggest market for both imports and exports of food products is the EU. Even with MFN status, trade tariffs would be high, and AFBI believes this would lead to significant changes in the flow of trade.

Under this scenario, the UK could expect to see significant producer price increases for some commodities, especially milk and dairy (+30%), pigs (+18%) and beef (+17%), with corresponding gains in production volume and output value, according to the think tank. This would boost the UK's self-sufficiency in these sectors as EU imports became more expensive, but would also drastically increase consumer prices. However, tariffs would undermine the competitiveness of Britain's big export commodities.

Szenario 3: Unilateral liberalisation

In its final scenario, AFBI modelled what would happen if the British government abolished all tariffs on food imports, while the UK's trading partners kept MFN tariffs on UK exports. Such a move would slash prices for UK consumers by opening the market to cheap imports from around the world, but British farmers would suffer as a result. Producer prices for beef would fall by 45% and sheep by 29%. While these are the most extreme cases, the price, production volume and output value of all British agricultural commodities would fall significantly, the study said.

Extract from the article of Samuel White, EURACTIV (21.08.2017)

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[1] Editor's note: The term MFN status (Most favored nation) means that the country must receive equal trade advantages as the "most favored nation" by the country granting such treatment. (Trade advantages include low tariffs or high import quotas).

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