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Newsletter September

Dear dairy farmers,

By introducing a dual-price and dual-volume system for a big producer organisation in Brittany the French dairy company *Danone* is the first dairy in the EU to take an important step towards a dairy quota. Given the fact that the statutory milk volume directive will not expire until 2014, this is even more striking. This confirms the worst fears of the EMB that has always warned against a volume control by the dairy industry. This coup enables the processing industry to strengthen its already strong position vis-à-vis the milk producers even further. This step would make nonsense of the efforts of the EU Commission and Council to strengthen the position of the milk producers. Should more dairies follow suit, which is to be feared, this would result in a contractualisation with dependant milk producers in Europe, as it is already the case in the poultry industry. The EMB and the milk producers that it represents have to do their utmost to make sure that the milk producers take the volume control in their own hands. First and foremost milk producers must be willing to bundle themselves. Furthermore political support for the dairy famers is required. Paying lip service will not suffice.

A block exemption for milk producers organisations as part of the EU competition law and a monitoring agency are two measures that policy-makers should take. At the end of October 2010 Commissioner Ciolos will present his proposal concerning the future configuration of the dairy market and on November 17th, 2010 the proposal for a reform of Common Agricultural Policy post 2013 will be published. In the coming weeks the board of directors of the EMB and its members at the grassroots level will have to conduct many political talks to raise awareness for the framework that is required and that would enable producers to take the volume control into their own hands. We will certainly take to the streets with our tractors to demonstrate the strength of our milk producers and their increasing degree of bundling.

I hope that you enjoy this month's newsletter!

Kind regards,

Romuald Schaber, EMB President

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Milk strike 2009 – One year later

Demonstrations in Belgium, France and in Switzerland

Three of the EMB member organisations want to mark the first anniversary of the events of 2009 with activities all over Europe and a huge feast.

The Belgian association **MIG** wants to organise a, not yet specified, event in Ciney on September 16th, 2010. We all recall the pictures showing fields full of tractors and nearly 3 millions litre of milk that were spilled. This was the beginning of the milk strike in 2009. FUGEA, a member organisation of ECVC, and MIG invite everybody to come and to bring along a can with 20 litre of milk from their own farms. European and Belgian policy-makers will also have an unofficial meeting in Ciney to discuss the orientation of the future dairy policy with the milk producers. For further information please contact Erwin Schöpges: 0032/497904547.

The French organisation **APLI** would like to invite everybody to join them on September 25th, 2010 for a picnic, a walk through the mudflats of the bay and a big party in the evening. One year ago to the day white waves flooded into the sea that surrounds the Mont St. Michel, the famous rocky island and its abbey. On the September 25th, milk will be spilled symbolically to highlight the fact that the situation of milk producers remains critical and that structural changes that are needed are still lacking. Furthermore, you will have the opportunity to visit different dairy farms and to get together with many French farmers. For further information please contact Anton Sidler sidler.anton@neuf.fr.

The Swiss organisation **Uniterre** also wants to organise activities in Lausanne and in St. Gallen. For further information please contact Nicolas Bezencon n.bezencon@uniterre.ch.

These events remind us that we still have a lot of work to do at the political level when it comes to milk bundling and strong producer organisations. Moreover they provide us with the possibility to meet and talk to dairy producers from other countries and to renew our strengths.

Sonja Korspeter, EMB

Netherlands: The Lisbon Treaty's frame of reference

The Daily Board of the Dutch Dairy Farmers Union (NMV) believes that administrators pay too little attention to the aims posed in the Lisbon Treaty.

Article 39 of the Lisbon Treaty states that one of the CAP's goals is to assure that those who work in agriculture should be guaranteed a fair standard of living and to stabilize markets. This implies that the European council of ministers of agriculture should stick to these goals in the effectuation of their policy. For organizations and citizens, however, it appears to be nearly impossible to legally respond when the council does not stick to their goals as it is hard to tell whether political choices can be held responsible for a non-fair standard of living or instable markets.

Despite these facts, the daily board of the NMV has made a choice to ask the council how they test decision-making with respect to the goals mentioned in article 39, part 1:b:c of the Lisbon Treaty. A copy of this request has been sent to Agriculture Commissioner Dacian Ciolo?. We will inform you about further developments regarding our request

Eric Bals, NMV

New milk price agreement in France

A new agreement on milk prices was signed in France. This agreement includes an increase of the milk price by 10% compared to 2009. This means that producers will obtain a basic price of 32 cents for their milk (3,8% fat and 3,2% protein) Given the increased prices for fodder and the redemption of loans that producers had to take out during the last year this price increase does not suffice. If one takes a look at the poor months at the beginning of the year it becomes clear that the average basic milk price 2010 of about 30 cents per litre does not cover the full production costs of milk

producers in France.

French milk price is coupled to German milk price

The agreement also stipulates that the French milk price is tied in with the German milk price. This regulation becomes effective retroactively as of July 2010. The milk prices in both countries may at most deviate by 0.8 cents/litre. Otherwise the prices are aligned with each other. We run the risk that the prices will pull each other down. As many German dairy products are exported to other European countries, it is crucial for dairies that their products are always a little cheaper than the products of local suppliers. If the French dairies, however, adjust their prices to the lower prices of German products, we will enter into a vicious circle.

Sonja Korspeter, EMB

Danone introduces a two-price system

The dairy company Danone has sent a letter to all its suppliers telling them that given the fact that the quotas will expire, Danone will already gradually introduce a system with A/B prices and volumes. A producer organisation in Normandy whose members deliver their milk exclusively to Danone will have but little choice. This organisation has already agreed to accept this system which will come into force for its members by July 1st, 2010. From July till October 2010 the entire volume delivered by the producer corresponds to the A-volume. From November till February 8.7% of the annual volume of the producer will be accepted per month as A-volume and will be paid as usual. In February and March 8.5% of the annual volume of the producer will be accepted as A-volume. The B-volumes, i.e. the volumes that exceed the percentage of A-volumes, fetch a lower price. The price for B-volumes will be fixed based on the development of prices for butter and skimmed milk-powder less transportation costs for the B-volumes. Furthermore, the special Danone-primes for these B-volumes will not be paid and the annual prices that are paid will not be adapted to the average regional milk prices that were paid. The above-mentioned coupling with the average German milk price does only apply to the "more expensive" A-volumes. Further details will be discussed next year.

Market economy?

Neither the production costs nor the actual profit of the dairies are taken into account for the calculation of prices. Moreover the two-price system cannot adapt and control the volumes according to the demand on the high-price markets. Dairies will only be interested in B-volumes, as they have to pay less for these volumes and thus milk producers are encouraged to increase their production. Danone has already told the members of the producer organisation in Normandy that it will be possible to produce an additional 5%. If not only the quotas but also the super levy is abolished and producers are under pressure due to a low price for A-volumes, many amongst them will be willing to increase their low-paid B-volumes. They would try to compensate low prices by increasing their volumes. The two-price system does therefore not provide a demand-oriented volume control, but fosters at the same time a decline of prices for milk and dairy products. First of all the domestic market will be affected and afterwards the world market as well. Dairy products will be sold for dumping prices on other markets, in developing countries for instance, and this will lead to market distortions and will pull down the entire price level and push aside local milk producers.

In Switzerland you can already admire or rather deplore the repercussions of such a two-price or three-price system. Due to this system many producers have to work with a very tight budget. The Swiss are therefore committed to a generally binding character of the milk producer organisation to reduce the volume linearly and to achieve a flexible control of milk volumes in the future.

Sonja Korspeter, EMB

Interbranch organisation in Switzerland failed -

Organisations want to put the general binding commitment into the hands of producer organisations

The Swiss interbranch organisation (Branchenorganisation Milch, BOM) was set up over one year ago. Under the impression of the growing butter mountain the interbranch was founded in the summer of 2009. The BOM met frequently and reached several agreements. One of its declared goals is the stabilisation of the dairy market. The Swiss government decided that the decisions of the BOM are generally binding. This means that the decisions of the board of directors of the BOM have to be implemented by all participants on the dairy market. At least in theory. The reality is a different affair. Werner Locher, BIG-M, says: „So far not a single decision of the BOM concerning a demand-oriented milk volume control has been implemented on the market.”

Red card for the BOM

While the EMB organised its big demonstration in Brussels on July 12th, 2010, Uniterre, a member organisation of the EMB, has therefore staged at the same time a demonstration in front of the BOM offices in Bern. „The Interbranch is threshing empty straw” was the slogan of the demonstration and Uniterre presented three demands: first of all the goal of the BOM has to be a price of 1 Franc/litre that covers the production costs of dairy farmers. Second: BOM has to acknowledge that the current regulatory system is not working. The butter mountain of more than 10.00 tons is the best proof. Third: Uniterre demands, just as BIG-M in the German-speaking part of Switzerland, that the national organisation of Swiss dairy producers (Verband der Schweizerischen Milchproduzenten (SMP)) gets the responsibility for the volume control. This organisation should be responsible for the general binding milk regulation model and not the BOM.

Red card for Migros

Only two weeks later BIG-M and over 300 milk producers took to the street in Zurich. They also said clearly that the interbranch is not capable of controlling the volume effectively. One of the two biggest supermarket chains MIGROS was particularly criticised. BIG-M stated in its press release: Even though the BOM decided on June 18th, 2010 to increase the target price for milk by three Rappen and even though the representatives of MIGROS who are also part of the committee endorsed this decision, the MIGROS dairy ELSA refused to pay out these additional three Rappen to the milk producers. At the same time MIGROS said in its customer magazine that they were so kind as not to increase consumer prices due to increased producer prices. They state as well that milk producers should tackle the issue of excess production. BIG-M called the approach of the company devious and unfair.

Entire team needs to be replaced

Milk producers place but little hope in the BOM and the media are also sceptical towards this organisation. Statistics on the income development of farmers in Switzerland in 2009 provide clear figures: within one year the income of farmers dropped by 6%. It is estimated that the income of milk producers decreased by 10%. The newly introduced so-called roughage assistance of 450 Swiss Francs per cow does not mitigate the situation. The milk bills of July show that the distributed prices ranging from 52 to 61 Rappen did not correspond to the target price of 65 Rappen that was fixed by the BOM. The President of the Swiss Confederation Mrs. Leuthard has organised a meeting of the BOM on August 30th, 2010. Only three days later the members of the board of directors of the BOM vanished and organised a two-day meeting behind closed doors.

They came to the conclusion that they do not want to introduce a binding limit of the milk volume. In the future the milk price should be divided in A-,B-, and C-milk. The producer, however, cannot refuse to deliver B- or C-milk, since the A-milk price will only apply to a certain “protected and promoted areas”. The remaining volume is automatically categorized as B- or C-milk and fetches a lower price. The organisation of Swiss dairy producers (SMP) has hence distanced itself from the decisions of the BOM. Even the head of the big dairy Emmi, Mr. Riedener, stated in an interview, that Switzerland has a problem with volumes on the dairy market. He said that there is a surplus of approximately 40.000 dairy cows in Switzerland. These are strong words! It was only two years ago that he said that a rules for the dairy market are not necessary. The situation is grave.

Is Switzerland still a role model?

A member of the conservative party SVP has submitted a motion (Motion Aebi) to make sure that the organisation of Swiss dairy farmers will be responsible for a generally binding milk regulation model. If an emergency motion is passed, this motion will be discussed at the beginning of October. BIG-M is already planning the next demonstration. This time they want to organise a cattle procession to underline that a decision and fair rules on the dairy market are needed. Does BIG-M support this motion? Werner Locher, BIG-M explains: „Currently we have a policy of small steps. We need a general binding commitment and a volume control. The motion includes a volume control based on volumes that were produced in 2008/2009. Such a rigid regulation, even though it is better than nothing, is problematic. We can still discuss the details after the motion has been passed”. Their colleagues from Uniterre in the francophone part of Switzerland are sceptical as well, they emphasise that a flexible volume control is necessary and suggest reducing the milk volume linearly. It remains to be seen whether the Aebi motion will be approved by the Swiss parliament. Moreover it is still not

clear what kind of legal regulation will be implemented.

Sonja Korspeter, EMB

Minimum criteria for contracts in the dairy sector

The EMB clearly prefers individual farm-based delivery rights at the producer level, rather than volumes that are defined by the dairy industry to solve the existing imbalance on the market. The EMB was always cautious of direct contracts and has always pointed out that they are not suitable to regulate the volume effectively and to adapt the production to the demand on the market and to ensure prices that cover the production costs of dairy farmers. Contracts are, however, currently widely discussed and they are often referred to as a possible solution. The Franco-German committee that was set up by Le Maire and Aigner shall also discuss direct contracts as an element of the future dairy market. That is why the EMB board of directors has formulated minimum criteria that have to be met so that a contract-based system would not put milk producers at the mercy of dairies. This list of criteria was submitted to the French and German ministries for agriculture on September 3rd, 2010. (Please find the press release on our website www.europeanmilkboard.org/ in the press section)

If, however, the dairy sector will be predominantly regulated by contracts between producers and processors, it is indispensable that appropriate minimum criteria are observed. The EMB, as representative of the European milk producers, will under no circumstances accept one-sided approaches to solve the problem which will result in an even stronger position of the processing industry at the expense of the market position of the milk producers.

Indispensable minimum criteria for contractual arrangements between processors and producers:

Minimum criteria are binding in the entire EU,

Entire, contractually agreed, volume is sold at one single price per buyer,

Duration of the contract has to be defined,

Price agreement has to consider the average full costs of milk producers in the EU to prevent dumping prices

If the price agreement is more than 10% lower than the level of full costs, the obligation to supply or rather the contract is nil and void.

Contracts can be concluded between processors and real and independent producer organisations, but not between individual producers and dairies, cooperative dairies are not considered as producer organisations.

Contracting dairies are obliged to abstain from importing milk from third countries,

After their conclusion contracts have to be reported without delay to the European monitoring agency,

Coherent European standards for a basic price (fat, protein, cell count ...),

Labelling of dairy products or rather imitations has to be defined clearly and violations have to be sanctioned severely.

A monitoring agency at EU level is required to determine the production costs continuously as well as to ensure more transparency on the market.

Le Maire and Aigner

The two ministers for Agriculture have different positions. While Aigner would like to sustain all direct payments in their current form, Le Maire wants to discuss how these payments could be redistributed to increase the acceptance of the CAP by the civil society and to take the demands of the new member states that call for equal primes into account. When it comes to the issue of milk both talk about regulation and consolidation, but the general and rather vague paper entitled "The German-French position for a strong Common Agricultural Policy post 2013" that was published on September 14th, 2010 shows that they have not yet reached an agreement and that EMB and its partners will have to do a lot of lobbying. Referring to the issue of milk the paper says: "Given the increased volatility of prices on agricultural market we need more transparency in several sectors and more market power for agricultural producers (e.g. instruments to monitor food prices and volumes: monitoring of food pricing based on cost analyses, processes and value creation in compliance with the current competition laws and maintenance of trade secrets) could be improved without additional administrative costs. To strengthen producer and interbranch organisations in the member states on a voluntary basis instruments, above all standardised contracts for the agricultural and food sector in compliance with the rules of the

domestic market, that could contribute to a fair balance of all members of the value creation chain, should be evaluated. As in other sectors, they should be enabled, if necessary to adapt their supply and to publish market indicators, including for instance also prices.”

Sonja Korspeter, EMB

France: APLI adopts a new structure

The French association of independent milk producers (APLI, Association des Producteurs de Lait Indépendant) has given itself a new structure. The milk crisis and the urgency of situation in 2009 have prompted APLI to take an unconventional approach. Actions first, structuring later. To ensure the continuance of APLI, its efficiency and the proper representation of its members, APLI decided recently to create an administrative council (3 members per region) and to set up an office (1 member per region and one representative of APLI at the EMB). Four working groups were set up (Finances, Communication, Fair Milk, Office du Lait) as well. These working groups will submit their proposals to the administrative council. When APLI was founded it was already decided that all members of the initial office would be replaced later, with the exception of the president Pascal Massol.

From now on APLI will also have the administrative means to defend the interests of milk producers in France as well as in Europe.

Christian Manauthon, APLI

EU parliament adopts Bové report

The gap in the agricultural sector is widening. This has been evident since the milk crisis in 2009. In recent years producers saw a steady decline of their revenues and many of them were forced to give up their farms, while the margins and concentration of industry and retail sector have been increasing. Now the European Parliament also realised that this is not acceptable and voted on September 6th, 2010 in favour of the so-called Bové report.

This report that is entitled “Report on fair revenues for farmers: A better functioning food supply chain in Europe” and that was prepared by the parliament under the aegis of José Bové, deputy chairman of the agricultural committee of the parliament and member of the Greens, invites the EU Commission and the member states to fulfil the goals of the CAP (Common Agricultural Policy) and to take the interests of producers and consumers into account.

The report contains clear demands for more transparency on food price building, better conditions of competition and access to the market for all participants, a restriction of abuses of a dominant position on the market by industry and retail sector as well as an end of excess production. Another key demand is the creation of an interbranch organisation and an agency that observes food prices. Furthermore the parliament invites the Commission to develop new legislative proposals to reform the competition law and thus to strengthen the bargaining power of producers and to enable small- and medium-sized companies to organise themselves, for instance in producer organisations.

Moreover the report highlights the importance of prices that cover production costs. José Bové says: “We have to take a close look at production costs. It is not acceptable that farmers obtain prices that are below their production costs. We have to strengthen the influence of producer organisations, especially in negotiations between producers, the processing industry and the retail sector.” Prior to its ratification the report became topic of a heated discussion. Especially the issues control of the retail sector, prevention of dumping practices as well as the abuse of the market power of buyers were at the heart of the debate.

As this report is an own-initiative report of the European Parliament, it is now up to the Commission to take it into account. European Commissioner for Agriculture, Dacian Cioloș, said that we would like to include the report of the parliament in his proposals concerning the reform of the CAP.

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