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Special Newsletter Switzerland

The Swiss milk market – two years after the end of the quota

A good two years have passed since the quota was abandoned in Switzerland on 1 May 2009. The milk market situation is as drastic as ever. There is far too much milk on the supply side. At present the butter mountain is at a record high, in excess of 10,000 tons. The milk price is permanently under pressure and, currently averaging 60 swiss centimes, is a long way from covering costs.

The quota system was already phased out three years earlier. In the “transition phase” of 2006/2009 producers were able to unite in milk sales organisations. A total of 38 organisations were set up, which as independent producer organisations (POs) or together with a dairy (PMOs) tried to pool the supply and sell their milk together. The five largest POs together pool about 70% of the milk volume.

Soft landing in the EU – in Switzerland they call it excess quantity regulation: The quota was rendered inoperative long before its end

The organisations had the opportunity to opt out of the quota before the official end. That means the organisation officially returned the quota to the state. It then allocated the producer exactly the same quantity as a delivery right which, however, could only be traded within the organisation. Organisations that opted out also had the opportunity to increase the milk volume if they could prove to the Federal Office that they had found an additional sales channel. What are termed excess quantities were bought from the producers at a demonstrably lower price – owing to the “market entry cost sharing”. More than half of the producers and the producer organisations took advantage of the opportunity to opt out early and increase their volume, resulting in a 5% rise in the volume of milk in Switzerland already before 1.5.2009.

There were also producer organisations that decided on a very strict control of volumes. However, they were soon confronted with the fact, and still face the problem, of growth-hungry members leaving the organisation and supplying their milk directly to a processor for a higher farm-gate price. What is more, direct suppliers could freely stipulate the milk volume in their contracts. So from the outset there was discord among the producers: surplus quantity dairy farmers and growth-hungry producers against advocates of supply control who viewed the market as a whole.

The sector organisation’s attempts in vain

So far there have been numerous attempts to get a grip on the situation. For instance, time and again the new inter-branch organisation BOM, which unites producers, processors and retailers, has passed resolutions on dealing with the surplus quantities that have not been implemented to this day (see press releases at www.ip-lait.ch). Both a model contract of purchase and a provision on butter disposal have been ignored by individual producer organisations. The reference price for milk set by the BOM is non-binding. And the segmentation of the farm-gate price that has been adopted has only a negative impact on producers.

The milk buyers segment the milk into A, B and C milk when paying the farmers. A milk is for the protected domestic market, B milk for export or to defend against imports, and C milk goes to the world market. It is impossible for the producers to opt out of supplying B or C milk. Thus there is no control of the total milk volume, because when in doubt the processors can always dump the surplus milk on the world market as C milk. Then the farmers receive less money for those litres of milk marketed as C milk. And that is irrespective of whether they have abided by the stipulated contractual quantity or not. The only decisive factor is the form of marketing, and the producers have no influence on this.

The politicians' half-hearted attempt

Last year a member of the National Council Andreas Aebi put forward a motion in Parliament calling for a levy to be imposed on the "excess quantities" produced over and above the original delivery right (quota) to cover the entire costs of disposing of this surplus milk. This levy was to be up to 30 centimes a kilo. The motion was passed with a large majority in the National Council and a slim majority was expected in the Council of States, but the vote was torpedoed by a procedural motion and the decision shelved indefinitely. The inter-branch organisation (BOM) was to be given a very last chance to gain control of the situation by its own devices.

Unfortunately the BOM failed to grasp this opportunity. It did decide on 18 March to impose a levy to eliminate the butter mountain: one centime on every kilo of milk and four centimes on the "excess quantities". That would have equated to bringing back the old quotas. But shortly afterwards individual, growth-oriented organisations vehemently opposed this decision and took legal steps to torpedo it. The inter-branch organisation decided not to do anything until August.

What has caused the milk producers to fail?

The producers missed the chance to jointly stipulate a sensible successor to the quota system on time. According to a grass-roots survey in 2008, over 80% of dairy farmers were in favour of supply control under private law, spearheaded by the milk producers' umbrella organisation, to replace the quota. More than 85% of consumers cannot comprehend farmers producing more milk than they can sell on the market.

Yet after two years of a deregulated dairy market there is not a trace of a control of volumes that can adjust supply to demand. There is total discord among the producers. Some make the surplus producers responsible for the debacle; these in turn are insistent on carrying on producing to their new capacity levels. The umbrella organisation of the Swiss milk producers (SMP) has become impotent. Making compromises left, right and centre, it tries to prevent individuals leaving the organisation. The SMP no longer has any clout. In view of the facts described, a joint strategy seems almost impossible.

Volumes and prices out of kilter

The excessive production is also the reason why the farm-gate price in Switzerland has not been able to rise as it has in the surrounding countries in the last 20 months. It is true that the entire milk volume is now enshrined in fixed supply contracts. But the dairies have contracted volumes that are much too high. On top of that, last year the dairy farmers supplied 3% less milk than agreed in the contracts and this year have stepped up production again to offset the low prices in part. Although the official reference price set by the BOM for A milk went up again by 3 centimes to 65 centimes in March, the farmers miss out on this because for 10, 20 or even 30% of their milk they are paid a much lower B price or C price. (For your information: average production costs in Switzerland – 107 centimes a litre; 1 euro is equivalent to 122 centimes.)

In late June (week 25) the butter mountain was at its absolute peak. Normally stocks fall from week 21, because some 80,000 cows go to pasture then. But this year stocks remained high and are still rising. And the BOM does not want to do anything before August that might alter the volume of milk. It is all set for disaster (and the Head of the Federal Office for Agriculture packed his bags at the end of June….).

With the drop in the value of the euro against the Swiss franc the cheese export situation could become critical. Purchase contracts for the cheese for export could be renegotiated with lower prices, which would result in greater pressure on the price of cheese-making milk, greater stocks and an oversupply of cheese-making milk. If this milk then goes into the industrial milk processing channel, the surplus cheese-making milk could produce greater pressure on the already low industrial milk price. It is becoming apparent, too, that for the first time in 150 years more cheese will be imported into Switzerland than exported from it. The Free Trade Agreement for Cheese between Switzerland and the EU which became effective on 1 June 2007 is partly responsible for this situation.

Prospects

The Swiss EMB organisations are campaigning both publicly and behind the scenes for the politicians to allow milk producers to control supply. It is predictable that the milk prices in Europe will fall again as soon as the feed situation has stabilised around the globe. Because the volume cannot be reduced in Switzerland we shall inevitably be drawn into this whirlpool. Exporting surpluses with contributions from the farmers or even state subsidies is no answer. What is even worse, such dumping exports ruin the livelihood of our fellow farmers abroad. Moreover, it is an unnecessary, senseless waste of valuable resources.

This situation again highlights the vulnerability of a dairy policy essentially geared to exports and the free market. That is why we need a coherent agricultural policy based on the principle of food sovereignty. A popular initiative calling for this is being prepared.

The impression gained today is that the milk market is no longer about ensuring the populace is supplied with precious dairy products but only about market shares, might and margin. BIG-M and Uniterre are committed to effective producer-driven supply control that prevents surpluses as far as possible from the beginning so that cost-covering prices for the farmers and the production of high-quality milk throughout Switzerland can still be possible and have a future.

The farmers' uprising, the milk strikes and the demand for 1 CHF/litre for the entire Swiss milk production were the key factors behind repositioning farming families in the milk market debate. Milk producers were never as strong as in these campaign days. They substantially alarmed society; they were listened to and were supported. Several projects for marketing Fair Milk have since been implemented.

Besides these marketing projects and the "street" campaigns, the producers have put forward proposals for stabilising the market. A first control model was presented to the milk producers, their organisations as well as to the politicians. It is currently being discussed in depth on many sides, because it is a credible alternative to the chaotic situation at present. It is a solidarity method for withdrawing milk quickly from the market and raising the price, and is thus flexible supply control by the producers, as proposed by the EMB.

Politicians and the public listened to the milk producers in Switzerland when they were out in the streets campaigning and stating clear demands, which can also be adopted on a European level.

- A fair price of CHF 1/litre for all milk produced in Switzerland
- Producers' control of production volumes
- Universal applicability adopted in state legislation, so that the public can see what is happening, the control can really be properly established and meets the demands for an agricultural policy based on food sovereignty.

Co-ordinated and European campaigns must be yet again organised in such a way that the decision-makers and the public are once more aware of the producers' concrete proposals.

In 2015 the situation of producers in Europe could be similar to - or even worse than – the Swiss producers' situation today. The European problems will take on a different dimension, but will basically be very similar to those faced by the Swiss producers today. The European decision-makers are in fact keeping a very close eye on the development in Switzerland.

So it is important to solve the "Swiss problem" in order to develop the European dairy policy in line with the EMB's demands. That is why BIG-M and Uniterre call on EMB to engage in more depth with the case of Switzerland and create a joint strategy that can exert real European pressure on the Swiss decision-makers and politicians.

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Note of EMB office:

During the coming months you will find up-to-date reports and articles about the developments in Switzerland on the homepage of www.europeanmilkboard.org

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