

How do you get farmers to effectively engage with the *Green Deal* and *Farm to Fork* strategies?

A proposal by the European Milk Board (EMB)

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In order to successfully reform our sector, we think that it is absolutely essential for stakeholders to contribute to the reform process with their expertise. As representatives of European dairy farmers, we would, therefore, like to present our concrete proposals as important insight on the key aspects of the Green Deal and the Farm to Fork Strategy. The aim is to provide a clear overview of the points that must be considered in order to enable farmers to accept these strategies and to be in a position to support them as well.

In terms of acceptance and successful implementation of the reform, the following points are of unequivocal importance: Farmers have a vital interest in their hard work in agricultural production being able to generate enough revenue to keep their farms in business and to allow them to adequately provide for their families. Like all other citizens, farmers deplore framework conditions that keep them in the red, in spite of their high degree of specialised knowledge and intensive work. Therefore, the framework conditions must be designed in a future-proof way, so that farmers in the EU are paid prices that allow them to cover the cost of all factors involved in milk production, including their own labour. If this basic condition is fulfilled, it will become possible for producers, who have systematically been the weakest link in the food-production chain and have borne the brunt of major costs and losses to date, to support and implement reforms as well. They could thus become active participants in the creation of a sustainable EU agricultural sector. From the perspective of agricultural policy, cost-covering prices are absolutely essential to create a viable economic foundation for farms and to equip them to deal with future requirements and reforms.

EMB proposals regarding some key aspects of the Green Deal and the Farm to Fork Strategy

I) Proposals to improve the position of farmers in the value chain

Farmers clearly have a weak position in the food-production value chain, and this is mainly due to sectoral framework conditions. In the dairy sector, for example, their position is undermined due to the following conditions:

1. Lack of competition in the dairy sector: Contract conditions, together with partly monopolistic structures, mean that in spite of high levels of dissatisfaction, dairy farmers rarely switch between dairies, thus leading to extremely minimal competition. As a result, it is very easy for dairies to capitalise on market fluctuations to fix very low producer prices, without running the risk of losing milk suppliers. Unilateral, retroactive price-setting by dairies (producers are only informed of the price they will be paid for milk deliveries post fact, without any possibility of influencing said price) means that all market risks are simply offloaded in a top-down manner on to producers. In other words, dairies exert price pressure from up top – as purchasers – with little to no resistance as they simply pass their losses on to producers by keeping producer prices suppressed.

In addition, the exclusive supply obligation, to which producers are often subject, also has a particularly restrictive effect on competition. In many cases this means that a farm is obliged to deliver its entire milk volume to one dairy. This ultimately serves the dairy industry, for which it represents a secure supply of raw milk. However, it seriously undermines the producers' opportunities to act in a market-oriented manner. As a matter of fact, the exclusive supply obligation deprives them of the possibility of supplying milk to several dairies and consequently prevents competition for milk as a raw material, which is highly questionable from a market economy point of view.

2. Reactions usually do not align with market requirements. The mechanism of *low prices = produce less* does not operate on the dairy market: Traditional market logic dictates that producers reduce their production during crises and consequent periods of rock-bottom prices. In reality, however, dairy farmers increase their production in precisely these conditions. They attempt to reduce cost per litre by increasing production volumes, and thus try to keep afloat faced with low prices. However, this increased production only worsens the already problematic market situation and feeds into a further downward spiral in terms of prices. This behaviour contrary to market requirements must be changed.

The situation would be significantly improved by:

1. A crisis instrument that would promote market-friendly behaviour

In times of crisis, programmes that promote the correct interpretation of market signals and thus 'market-friendly' behaviour should be activated.

Crises are triggered by surpluses, leading to price collapses. Through

- a programme of voluntary production cuts, where producers are temporarily paid a bonus for producing less, overproduction can be stopped and the market can be stabilised. The signal of 'low prices' would thus lead to the
 - correct reaction to 'produce less', which, in turn, would lead to **market stability**.

Details about this crisis instrument: Market Responsibility Programme (MRP)

2. Organising the dairy sector such that dairy farmers are no longer forced to surrender their milk at low prices that do not cover production costs. This could be done, for example, by

- **documenting production costs (including fair remuneration for farmers)** together with an **EU-wide ban on the sale of raw milk at prices below production costs**
- or by adjusting milk production volumes based on real demand.

3. The abolition of the exclusive supply obligation for the producer. This will enable competition for milk as a raw material and thus allow market-oriented behaviour.

The market position of producers can only be strengthened by ensuring that producers are no longer being bound by restrictions such as the one mentioned above and by ensuring that market prices fully cover the cost of production. The Common Market Organisation must be set up in such a way that milk prices generate income, making farmers less dependent on public-sector subsidies and aid programmes.

II) Proposals to ensure a decent living for farmers, fishermen and their families, and

III) Proposals to make farming greener

Decent income for farmers: Fair prices for agricultural products and a decent income are basic conditions to keep farms solvent and to create financially stable businesses that can be passed on to the next generation. Farmers are being economically and socially left behind: In 2017, a so-called 'normal' year, farmers made only 46.5% of the EU average income – and this was the highest it has been in the last 12

years! In crisis year 2009, it was merely 27.5%.¹ Wages paid to employees in the agricultural sector are also less than half of what employees receive on average in all sectors of the economy combined.²

It is plain to see that the income situation is currently very precarious. If the costs associated with additional environmental standards will also have to be shouldered by producers, this situation is only going to get worse. Therefore, it is quite logical that farmers are not willing to accept such standards. However, these standards would gain acceptance if the necessary economic conditions and a decent income are guaranteed. For example, it would take cost-covering prices and an effective crisis instrument within the CAP to make the dairy sector crisis-proof. At the end of the day, farmers are ready to play their part in climate-change mitigation and environmental protection. But only if they are in a financial position to do so.

In this context, the dairy sector must also pay due recognition to family farms, which operate within an area-related closed circuit and contribute significantly to sustainability: They produce regional products for consumers and make shorter transport routes and lower environmental impact possible. However, the family farms still in business will only be able to survive if the income situation described above improves markedly.

The situation would be significantly improved by:

From the perspective of dairy farmers, the first step has to be stabilising the dairy sector: creating the underlying conditions for cost-covering prices and a decent income for farmers, and reducing the sector's chronic susceptibility to crises. To this aim, we need

1. The MRP crisis instrument already mentioned in Point I.

2. An in-depth analysis of the necessary environmental standards as well as a funding plan to cover the associated costs (e.g. they are reflected in product prices). After all, stricter standards mean higher production costs. If they are not reflected in the prices for agricultural products, these costs will have to be unfairly borne by producers. There can be no justification for these costs being shouldered by the weakest link in the chain – farmers.

Producers will be in a position consider comprehensive standards only once the foundation for 'healthy prices' and a 'healthy system' has been laid.

¹ Agricultural and farm income. European Union, 2018, p.15

² Agricultural and farm income. European Union, 2018, p.15

3. A financial bonus, over and above simple price coverage, which could increase the acceptance of environmental standards. This would motivate better environmental performance on a large scale and thus contribute to the successful implementation of the Green Deal.

IV) Proposals to increase the area dedicated to organic farming in Europe

There is no doubt that organic farming is much better for the environment and ecosystems, and an important factor in the fight against climate change. However, organic farmers are also bound by severe economic constraints, which negatively influence their prospects of economic sustainability.

Higher production costs in organic farming: Organic milk production is objectively more expensive because it must follow stricter rules and requires different farm structures and stall systems, which imply a cost of their own. In addition, the need for more land, more expensive concentrated feed and increased workload also contribute to higher production costs.

A recent study that calculated the cost of organic milk production in Germany³ showed that organic milk producers do not receive cost-covering prices. Only 79 percent of production costs incurred on farms are actually covered by the farm-gate price. Organic dairy farmers need to be making an additional 12.89 cents per kilogram to fully cover costs, including fair remuneration for their work. Thus, it is clear that organic dairy farmers are also operating at a loss.

The situation would be significantly improved by:

Sustainable milk production – be it conventional or organic – requires a business model that **does not compensate chronic cost shortfalls with overproduction.** The positive environmental effects of organic farming will otherwise end up being cancelled out by the further intensification of farming practices.

If the goal is to significantly increase the percentage of organic milk production in the EU, it is imperative for the sector to ensure that organic dairy farmers are not forced to sell their milk at prices that do not cover production costs. **The proposals in Point I (Proposals to improve the position of farmers in the value chain) regarding a crisis instrument, as well as a ban on the sale of milk below production costs, even in the organic sector, would be appropriate measures.**

³ Jürgens, K. (2019): How much does it cost to produce organic milk? Calculation of production costs of organic milk produced in Germany based on the German Farm Account Data Network. Results for the accounting years 2011/12 to 2018/19 (in German).

V) Proposals on the import of foodstuffs that comply with EU standards

Crisis-proof and self-sufficient agriculture and food production: The Coronavirus pandemic has, once again, clearly demonstrated the importance of comprehensive self-sufficiency when it comes to foodstuffs. Safe, self-sufficient food production to cover the needs of the European population should be enshrined in EU agricultural and trade policy as one of the key pillars.

Dependence on food and feed imports undermines sustainable self-sufficiency. Furthermore, imports are allowed to comply with lower standards in terms of environmental production, health, animal welfare, labour rights, etc., which clearly generates unfair competition. Together with the problematic framework conditions described in Point I that EU farmers have to face, this leads to many local farms definitively shutting shop. This, in turn, further reduces the potential for self-sufficiency as well as diversification within the sector. Well-structured farms with regional circuits are key elements of a crisis-proof and self-sufficient agricultural sector. The objective is to uphold comprehensive production and regional supply structures in Europe.

The situation would be significantly improved by:

1. The imperative preservation of the EU's precautionary principle and compliance with environmental and animal welfare standards for both consumers and producers, which must be upheld at all costs.

2. Agricultural products must be treated as sensitive products and excluded from free trade agreements, so that local production does not become a bargaining chip and end up being displaced. In this context, statements like those by Trade Commissioner Phil Hogan on concessions regarding food and agricultural standards for the USA are extremely problematic and should be rejected. We believe that this threatens the achievement of the goals of the European Green Deal.

3. Imported goods should not be sold at prices that are lower than local costs.

4. Agricultural policy must promote regional production *in all parts of the EU*, so that jobs in rural areas in agriculture as well as in upstream and downstream sectors remain relevant. Concentrating production in a few centres – the disappearance of small and medium-sized farms and the dominance of large farms – would end up endangering consumer access to regional foodstuffs and would imply an added environmental impact. A healthy mix is key: The EU must work toward a structure that consists of small, medium-sized and large farms.

VI) Proposals to reduce food waste

Food waste: Farmers produce safe, high-quality foodstuffs. It is important to raise awareness among consumers about the value of food. The food industry's policy of low prices to make agricultural products more competitive on global markets contradicts this basic principle. Furthermore, agricultural policy must ensure that bait-and-switch and dumping offers ('buy 2, get 1 free') are prevented in the retail sector. Volume-related incentives promote overconsumption and consequently food waste. Foodstuffs are valuable and must be priced accordingly!

The situation would be significantly improved by:

- 1. In retail: No dumping offers for foodstuffs.**
- 2. Cost-covering prices that reflect the true value of products, i.e. their production cost including labour costs.** The proposals in Point I (Proposals to improve the position of farmers in the value chain) regarding a crisis instrument, as well as a ban on the sale of products below production costs would be appropriate measures.

VII) Proposals to deal with the constantly-shifting geopolitical landscape as well as

Instruments for crisis periods: Geopolitical events, like Brexit, as well as pandemics, natural disasters and even embargoes highlight the extreme vulnerability of our agricultural and food production.

VIII) to engage in strategic forecasting to stay one step ahead

An effective crisis instrument like the Market Responsibility Programme would allow quick reaction to such events at EU-level. The European Commission can align supply and demand by activating the relevant measures in a timely fashion, thus stabilising the European dairy market.

The situation would be significantly improved by:

- 1. The EU should have geostrategic instruments like the Market Responsibility Programme (MRP) that would enable effective reactions to unforeseen events.** These instruments employ forecasting and react accordingly. They constantly monitor and evaluate the market situation. This makes it easy to identify when measures need to be activated. The reaction mechanism envisages important steps that can be put into motion when needed. The negative consequences of geopolitical events can thus be reined in to the greatest possible extent. And that too, without wasting financial resources.

IX) Developing a comprehensive strategy for Africa

Responsible EU agricultural and trade policy: The EU dairy policy exerts an enormous external influence as well, which is why the EU also shoulders some responsibility in the development of this sector in other countries. The current overproduction in the EU dairy sector is problematic because it is exported in the form of milk powder and dumped in markets in developing countries, to the detriment of domestic milk production. This limits the possibilities for local farmers to generate revenue and disrupts economic growth. However, this is an aspect that must change for the better. We cannot continue in a world where farmers themselves are going hungry. According to the Food and Agriculture Organisation of the United Nations (FAO), small farmers make up 90 percent of those in poverty in rural areas and constitute the majority of the world population going hungry.⁴ Economic growth can reduce malnutrition and increased revenues on family farms can pave the way for further development. However, EU policies that promote milk overproduction and dumping counteract these positive developments. In the words of the FAO: *'Food sectors in developing countries that are characterized by low productivity and lack of competitiveness are especially vulnerable to import surges. A sudden disruption of domestic production can have disastrous impacts on domestic farmers and workers – loss of jobs and reduced incomes, with potentially negative consequences for food security.'*⁵

The development of other countries, their citizens generating sources of income and thus becoming capable of fulfilling their own needs should be of great interest to the EU. Especially in light of the huge wave of refugees that fled to Europe to escape war and economic paucity. Therefore, responsible production in the EU should be a cornerstone of the new CAP.

Future agreements with Africa must respect the sovereignty of African countries to protect and develop their domestic agricultural sectors. Responsible European agricultural and trade policy as well as a review of common external tariffs are key aspects in this regard.

As imports often distort competition, Kenya, for example, has implemented a responsible tariffs strategy to ensure that imports do not stifle the development of their dynamic domestic dairy sector. This ambitious tariff protection policy (60%) has made it possible for the country to become self-sufficient in terms of milk supply, without impairing its broader food security.

⁴ FAO: Resilient Livelihoods. Disaster Risk Reduction for Food and Nutrition Security. FAO Edition 2013. p. ix. <http://www.fao.org/3/a-i3270e.pdf> (Download 3/10/2015)

⁵ FAO: The State of Food Insecurity in the World – Meeting the 2015 international hunger targets: taking stock of uneven progress. 2015, p. 34. <http://www.fao.org/3/a-i4646e.pdf> (Download 20/06/2017)

The situation would be significantly improved by:

1. European agricultural and trade policy in Africa should not be centred around low tariffs.
2. It must ensure that any and all forms of dumping of milk products and blends enriched with vegetable fats in African markets is prohibited.
3. Another important element in this context is aligning EU production with the European market and avoiding overproduction in the European Union. Overproduction not only prevents cost-covering prices for EU producers, it also affects producers in African countries. A framework like the Market Responsibility Programme (MRP) can contribute effectively to preventing harmful surpluses.
4. All forms of export aid that promote the interests of European exporters by offloading European surpluses must be avoided at all cost. **Dumping by the EU continues to occur even when EU export subsidies have been explicitly discontinued because:**
 - a) EU producers receive direct payments which make their export products cheaper;
 - b) Major overproduction in the EU means that dairies pay EU producers' prices that are well below production costs. This promotes cheap export products as well;
 - c) The process of enriching milk products with vegetable fats makes it possible to produce milk products using cheap ingredients, creating a final product that does not correspond to its naturally-derived counterpart. This, too, suppresses product prices.