The European Milk Board's Comments on the Proposals Made by EU High Level Expert Group on Milk

The High Level Expert Group on Milk (HLGM) was set up by the European Commission and the European Ministers of Agriculture after milk producers all over Europe had taken action to make the general public aware of the fatal economic consequences of the European milk policy. As they see it, a drop in farm-gate prices by 25 to over 50 per cent was in part due to wrong decisions taken in the European Union's milk market policy: at a time when sales volumes were falling from late 2007 on, milk production (the quota) was effectively let loose by resolutions passed in March 2008 and November 2008, resulting in a manifest imbalance between supply and demand. The milk producers' weak bargaining position in the market rendered them defenceless against the milk price collapse. The EU was forced to re-introduce public storage and measures to make exports even cheaper (export subsidies).

By setting up the High Level Expert Group, the European Commission and the Council showed that they appreciate the necessity of counter-measures, because one of the tasks the HLG was given was no less than to come up with mechanisms capable of achieving a balance between supply and demand in the market, as well as a stable, transparent market.

This report was very eagerly awaited, but disappointment sets in when one reads the individual recommendations. Setting up the EU High Level Expert Group created a real opportunity for in-depth consideration of the future of the dairy sector and the mechanisms required for an economically, socially and ecologically sustainable configuration of the market. There were some good ideas and approaches; there were discussions in many meetings at considerable expense in terms of logistics and money.

Verbatim, the EU HLG's aims are: to create general conditions that can help stabilise the milk market and producers' earnings, and make the milk market more transparent.

From the EMB's point of view, this wording leaves out two essential points: ensuring that the full costs of milk production are covered substantially by the market and assuring the supply of high-quality milk to consumers in every region of Europe.

What is the point of a stable income on a level that makes it impossible for a dairy farm to survive? What is the point of transparency if it is not used in the interest of society?

Below we address the High Level Expert Group's proposals one by one, to see how effective they are in strengthening the milk producers' position in the market and whether they ensure that in future consumers are supplied with high-quality milk.

CONTRACTUAL RELATIONS

In this chapter on contractual relations the HLG clearly recognises the problems in the milk market. The milk producers' weak position in the market, it says, results in unfair business practices, and often producers do not know until well after delivery what price they are getting for their raw milk. The problem was not quite so acute for co-operatives, but the milk supplied was adjusted to demand to only a very limited extent owing to the obligation to supply and take delivery. The HLG also acknowledged that the milk market did not follow the same laws as other markets. According to the

report, given the poor milk prices in 2009, many producers had increased production instead of reducing it in line with conventional wisdom.

But the proposals for coping with these problems will not solve anything, precisely because milk production is different from other types of production and because the dairies have their own economic interests. They will not contractually provide for any cost-covering milk prices in the longer run, and when they stipulate supply volumes they will have only their own potential sales in mind, and not the milk market as a whole.

Only if there is a strong, unified producer sector that can have an effective influence on total supply will it be possible to draft contracts in a balanced way. That means volume adjustments geared to production costs. Otherwise contracts produce a unilateral position of control for the dairies, an even stronger one than under the present supply management via quotas.

Contracts are only of interest when concluded between equally strong business partners. In a situation of inequality they are always to the disadvantage of the weaker party.

THE MILK PRODUCERS' BARGAINING POWER

On this point, too, the EU HLG appreciates the existing imbalances of power and calls on the European Commission to study the legal possibilities of a special provision in cartel legislation for milk producer organisations.

The EMB backs the HLG in this proposal and along with these comments presents the Commission with the draft of a block exemption regulation that allows milk producers to set up horizontal unions independent of the downstream stage (the dairies) with the opportunity to configure common marketing rules. This measure is suitable for creating a framework that helps make up for marketing disadvantages with raw milk, ensure undistorted competition between milk producers and dairies in the future, and competition among the dairies for raw milk. Common marketing rules (e.g. as regards minimum prices, quality) within the EU milk producer organisations can prevent milk producers being played off against one another by dairies operating increasingly on an international level. As before, EU legislation on competition will prevent misuse of a dominant market position by producer organisations.

A block exemption regulation for EU milk producer organisations is the first step towards active market configuration by the parties involved. It incurs no additional cost either, and renders combined with other measures politicians' financial emergency schemes superfluous.

INTER-BRANCH ORGANISATIONS

At this juncture the EU HLG report makes reference to the fruit and vegetable sector and calls on the Commission to examine whether those structures could also apply to the dairy sector. In the EMB's view it makes sense to set up an agency on an EU level that creates a forum in which milk producer organisations and the dairy industry conduct negotiations on milk volumes and milk market data surveys. This body should have bylaws that enshrine society's interest in high-quality milk production throughout Europe, and be made up of EU politicians and representatives of societal groups. Decisions taken by this body should be ratified by the European Commission and declared binding on every European milk producer. In this way it is possible to ensure that the internal market functions well on the levels of production, processing, retail and consumption by the consumer. Such an inter-branch organisation also creates better competition at the market stage between dairies and retailers. The bylaws also safeguard consumer interests with regard to acceptable prices and supply throughout Europe.

This body for the milk market should also collect, analyse and publish data on price, cost, volume and market developments on a prompt and regular basis for greater market transparency.

TRANSPARENCY

The EU High Level Expert Group's report stresses that the distribution of margins along the food chain does not work. A first step would be to make it more transparent how prices are set and what structural factors play a part. To this end existing data should be better linked and any new surveys added. As the EMB sees it, in particular this should include data gathered regularly on the development of milk production costs including labour and capital. In concrete terms, data ought to be collected continually from reference farms in every European region and promptly evaluated. Data on the development of milk prices and the sales volumes of milk also have to be gathered in greater detail and more frequently to enable estimates of volumes required (market demand) to be made. These functions should be performed by the above-mentioned agency for configuring the milk market.

MARKET MEASURES AND FUTURES MARKETS

On this point the EU HLG report summarises the existing measures (direct payments, intervention and export subsidies) as operating well as a safety net. Moreover, it invites the EU Commission to consider what other WTO green-box-compatible measures were conceivable for restricting the price volatility that already exists and is to be expected in the future. The report says politicians ought to provide further training measures for farmers to enable them to operate in futures markets.

The last recommendation is particularly surprising, because the study preceding the recommendations clearly states that the upshot of debate in the EU HLG and consultation with experts was that futures markets were unlikely to reduce price volatility. Experience from the USA clearly shows that a) the involvement of farmers in futures markets is minimal, b) there is no visible reduction in price volatility, c) there has been no evident effect on the price level, and d) there is a risk of below-average prices for dairy produce on the futures markets, since the dairies are not prepared to take on unnecessary risks.

In the EMB's view, intervention on a very low level, as planned by the Commission, is unlikely to provide producers with secure incomes. It is also questionable whether taxpayers will still be willing in the future to invest money first in the production of surpluses, then in storing those surpluses and finally in buying the products themselves. It makes much more sense to gear the volume produced in the dairy sector as closely as possible to the (high-price) markets' demand, and in this way to use storage only to a limited extent as a regulatory mechanism. It should also be the function of and opportunity for the producer organisations in conjunction with the afore-mentioned agency to adapt production to demand as closely as possible and thereby flexibly in terms of volume and quality. In that way, milk producers themselves bear the costs of any surpluses, their storage and subsequent marketing.

Export subsides are a mechanism that must not be re-introduced/re-used ever again, as it also has a dumping effect on the world market. In developing nations in particular, time and again in recent years there have been cases of milk powder imports weakening or even destroying local milk markets. Another reason, then, for carefully monitoring the internal market and adjusting the volume produced to the internal market or high-price export markets' demand.

It is of primary interest for producers that they obtain their earnings from the sale of raw milk and not from state bonuses. So the state ought to create a framework in which the milk market with its many players and the fluctuations of supply and demand functions well, i.e. can take timely action. Direct payments should be used in a targeted way for benefits of societal and ecological relevance. This includes continuing with milk production in regions in which milk production is a key economic, ecological and social factor, in which costs are considerably higher than the selling prices achievable, owing to natural and structural conditions.

MARKETING STANDARDS AND LABELS OF ORIGIN

The EMB welcomes the EU HLG's recommendation that imitations of dairy produce such as imitation cheese or soy milk be clearly marked as such and thus enable the consumer to make an informed choice. The EMB explicitly welcomes labels of origin for milk processed in milk products, and regional labels of origin are also to be regarded as positive, though the latter ought to remain voluntary.

INNOVATION AND RESEARCH

On this point, which is dealt with in great detail, the report totally ignores some key areas. In the EMB's view, there should be further in-depth research into the use of grassland in milk production and into the question of developing protein feed in Europe. Both aspects in particular are of the utmost importance given the growing world population, hunger and climate change.

There should also be investment in the monitoring functions of the above-mentioned agency for configuring the milk market. This can occur through the better use of existing data, but it is necessary to extend existing methods of collating data especially when calculating full costs of production in Europe.

In summary we can say that on many points the EU High Level Expert Group's report shows good analytical approaches with regard to the milk producers' position in the market, but in its recommendations it falls back again on old approaches.

The European Milk Board offers its expertise to further advance the ideas in some points and to flesh out the implementation with concrete mechanisms.

Please refer also to the presentation of our concept "Configuring the European Milk Market while Safeguarding the Interests of Milk Producers and Society".