EMB Newsletter October 2011

Dear Dairy Farmers, Dear Interested Parties,

In the Netherlands several farmers have already built stables to be filled with cows from 2015 on. Three billion litres of milk extra (calculated on 8,000 kilos of milk production per cow on average) could be milked if these now still empty stables were filled with cows. A report commissioned by Rabobank shows this overcapacity of cow places very clearly.

At the press conference, where this report which is essentially about chain returns was presented, we heard a lot about the bad situation of the dairy farmers and that something needed to be done. Quotes like: “farmers come off badly again”, “the earnings remain nil”, “the situation has become nothing better for the farmer”, “this cannot go on”, “the stretch is out in the primary sector”, and most important: “together we should try to bring the percentage of return on equity back to 17%” (source: Zuivelzicht), sounded very promising.

In its marketing messages Rabobank always points out that they are a co-operative, founded by farmers. But on enquiry they said that it would not be a good idea that the co-operative dairy industry shared some of the required percentages in equity with their members/owners. “That could be harmful to the progress of co-operative dairies”, as Mr Thus, Dairy Manager of Rabobank, put it. Instead: “Support the individual farmer so that he will become a part of the top 20%”. Because there are producers who have return on equity. The LEI report also noted what the percentage of return on equity for that top 20% is: 1.9%. So a further increase in efficiency will not be enough to bring the dairy farmers' income on a level comparable to the rest of society.

We need a good volume regulation and fair prices to offer a future to many farmers in Europe and to enable them to produce good milk in a sustainable way. We, the European dairy farmers, we have to struggle together inside EMB and also together with other groups of society to achieve that goal.

Sieta van Keimpema, Vice-President of EMB, President of Dutch Dairymen Board

Council of the EU switching to being OBSTINATE

Even if in large parts of the EU a golden autumn and mild temperatures have been the major features in recent weeks - unfortunately that does not apply to the EU dairy policy. The strong wind blowing over here from the Council of the EU is pounding the minor progress achieved in the Parliament before the summer. In negotiations on the dairy market reform the Council of the EU stubbornly opposes important proposals such as a monitoring agency and contracts with dairies applicable throughout the EU. Are all the milk producers' efforts to date for intelligent control of volumes to be swept aside so easily?

Trialogue is what they call current talks between the European Parliament, the Commission and the Council on the Milk Package – an initial reform of the dairy market. The Council's attitude is obstinately in favour of deregulating the market and precludes alternative solutions. As is obvious from an initial working document, the Council ignores the proposals previously put forward by the European Parliament which could at least bring about some minor progress towards overcoming the crisis.

For instance, the Parliament proposes an EU-wide obligation to have contracts between producers and dairies, which the Council rejects. These contracts, which according to the EMB would have to be guided by production costs and negotiated by producer organisations across the board with the dairies, give producers a chance to obtain a fair price for their milk. This will not be achieved if – as the Council evidently intends – each individual country is to decide whether it introduces compulsory contracts or not.

As the Council's working document goes on to show, what is referred to as the monitoring agency, proposed by the Parliament after talks with the EMB, is not to be included in the final dairy market regulation. According to the Parliament, this agency's initial function should be to collect market data on volume, price and costs. Even if no active control of volumes is planned yet, the monitoring agency as a market observer would be a beginning at least. Once the national quota system comes to an end, it is only through a monitoring agency that we can prevent damaging surplus volumes being produced and the market plunging deeper into crisis.

The problem is also that the Council intends to put very severe limits on the size of producer organisations that negotiate contracts with dairies on behalf of milk producers: 33 % of the national milk production and 3.5 % of EU production. That is not enough to give producer organisations the requisite bargaining power. Dairies achieve a share of up to 95% of the national market. This enables them to simply dictate contractual terms and conditions – and with it inordinately low prices – to a producer organisation that is never allowed to achieve such numbers.

Whereas before in the EU only the Council of the EU and the Commission worked everything out amongst themselves, now the Parliament has to be included in decisions on the new dairy market reform. It is questionable, though, whether this will actually result in more democracy. Unfortunately, as is evident, the old "double act" – Council and Commission – looks as though it still does not want to take the Parliament's opinion on board. The Parliament must affirm itself and steadfastly defend its position. But the milk producers in Europe must also carry on bracing themselves against the keen wind blowing over from the Council in particular. Without a sensible control of volumes the next profound crisis is a given. Switzerland is already preparing us for it. In 2009 the policy-makers there abolished the quotas without bringing in a sensible follow-up regulation for the dairy market. Since then, farm-gate prices have been plummeting.

The EU milk producers' efforts so far have not been in vain. This can be seen for instance in the change in attitude of many Members of Parliament. However, the milk producers' campaigns must be continued and not allowed to fizzle out. For a cold wind from Brussels can quickly extinguish any spark of hope - but it will find it so much harder to knock over more than 100,000 resolute milk producers standing shoulder to shoulder in support of sensible supply management.

Silvia Däberitz, EMB

Five EU states supplied in excess of their quota in 2010/2011

In the 2010/2011 financial year, farmers in Denmark, Luxembourg, Austria, Cyprus and the Netherlands produced almost 0.2 million tons of excess milk. So the farmers concerned have to pay super-levies amounting to 55.57 million euros, according to Agra-Europe based on European Commission figures. Dutch farmers were responsible for more than 60% of the overproduction.

In total the volume of milk supplied was 137.98 million tons, i.e. 8.1 million tons or 6% short of the total European quota volume. 14 EU states apparently failed to produce more than 90% of their quotas. The most recent accession states, Romania and Bulgaria, supplied barely half their quota volume, according to aiz.com. Dairy farmers in other Eastern European EU Member States were also well below their allocated quota.

French farmers produced 5% more milk than last year, but were still 5,1% under the increased quota (8,8% in the last year). In Great Britain the milk volume increased as well, but stayed 1.48 million tons/10% short of the British quota. It is patently obvious in the countries where milk volume sinks that the farmers are reacting to the persistently low farm-gate prices by cutting back on production or even giving up their farm. Another factor to consider is that since 2008 the EU has increased the quota by more than 5% (increase in the quota and adjustment of fat correction). The new latitudes have thus been used very differently.

In Denmark and the Netherlands in face of over-quota the trend for dairy farmers is still to step up production in order to offset low prices. That this approach is not necessarily much more successful is demonstrated by the Dutch Rabobank’s study of dairy farms’ return on equity (see Editorial). In Denmark, too, the growth strategy has resulted in fragile farm structures with high levels of debt (see interview below).

Yet something else is evident from these figures on the utilization of the quota: even before the abolition of the quota milk volumes are actually being shifted around within Europe. Whereas milk production continues to be concentrated in countries with a high density of milk, in areas where milk production is difficult it is on the decline. So far the EU has neglected to provide security measures to maintain Europe-wide milk production and with it added value.

Sonja Korspeter, EMB

Interview with Danish dairy farmer Flemming Jørgensen

S. Korspeter: M. Jørgensen, some banks in your country had serious problems and land prices more than halved in Denmark... what does this mean for you?

Flemming Jørgensen: All Danish farms taken together have a total debt of about 50 billion euro, spread on about 10.000-12.000 farms. Hence Danish farms and banks are quite strongly linked. Banks have stopped almost altogether lending out more money. The security in form of land has enormously lost in value. When I bought my three neighbouring farms in 2006, 2007 and 2008 I had to pay 40.000€ per hectare. Now, a hectare costs less than 20.000€. But actually in my day-to-day life I do not think a lot about this loss of value. The farm means a lot to me. So I try to look well after my animals, to have a good quality of milk and to get a higher milk price. And good harvests are important as well.

What has changed since the banks got in trouble and the land prices plummeted?

It has become much more difficult to borrow money and get loans from the banks. Some have closed shop, but most simply did not accept to finance investments anymore. Just now some farmers are in trouble because there has not been much straw. And so they need to buy it for one Danish crown per kilo. Some farmers do not have this money. If the bank does not grant a loan, the farmers have a real problem.

I myself am not in trouble. When I saw in spring that I could not pay the usual amount of money back to the bank each month I went to my bank and we reached an agreement. It contains some new rules which I have to accept. I have to try, for example, to always get the best quality of milk and so the highest possible milk price. The agreement says that I need to get in touch with my bank consultant before making investments. But do not interfere with my decisions on the farm.

How do you look into the future?

Optimistic. Everything is going to be alright, maybe it will take ten years. But then Danish farmers will be well off again. It has always been like that. Debts are normal in Denmark. Every year 10% of the dairy farmers go out of business. And the others buy their farms. This is only possible using loans.

How do you feel about ARLA Foods?

ARLA is ok. I see dairy farming realistically. 75% of our production has to be exported. That's why we need a big company to do that. They did some investments that could have been done differently. But all in all, I have a good feeling with them.

What are the main issues LDM is dealing with at the moment?

In September we had elections in Denmark. LDM is meeting the new politicians and explaining to them the situation of dairy farmers and the positions of LDM. A new test for antibiotics in the milk that can be performed is on the farm is being discussed. LDM thinks that's a very good thing, because the farmer knows at once if the milk is ok and does not have to pay for a test at the dairy, as he currently has. The CAP reform is also an important issue for the coming months. And we have just completed a campaign to gain new members and will now represent once again more than half of all Danish dairy farmers. We are now about 3700 dairy farmers in the country.

In 2010 / 2011 Denmark oversupplied its quota by 1.4% and an increase of production seems to be important to many dairy farmers in your country. So what is LDM's opinion on volume control?

Today the quota costs Danish farmers a lot. When young farmers buy a farm they have to pay a lot of money to the former farmer for the quota. And farmers also pay a lot because of the super-levy. We need a volume regulation that does not cost the farmers so much, but controls the farmers so that there is room for everyone. To avoid high price volatility and have stable milk prices, volume control is utterly necessary.

What means EMB to you or to LDM?

EMB is our gateway to Brussels, to the European Union. We must change the agricultural policy. We need to find a better way. To mention but one example: same rules for all countries. On paper they are somehow the same, but the implementation is quite different in different countries and it seems that it will become still more inconsistent. The strengthening of the farmers' position on the market has to be brought forward. We appreciate a lot the strong actions organised by our French, German and other active EMB colleagues in Brussels and in their countries. These actions gave a clear signal to the politicians that something has to change, that the current policy is harming dairy farmers.

When you visited France some weeks ago, you saw dairy farms with 40 cows – what's your impression about it?

I have been on very big and very small farms. 40 cows, this can mean a good life for the farmer. He needs to work less and gets a slightly higher milk price (June 2011). But I have also been on big farms. Here the advantage is that several people work on the farm. And if team work is good you have a much higher quality of life, but you also have high debts. Owners of small farms and big farms are both lucky in a different way, but they are all farmers. And they all need a cost covering price for their milk.

What made you decide in 2006 to invest and increase your farm? What was your motivation? And how do you feel about it today?

I wanted to have more cows and this means that you also need more land and new stables. This is required under environmental standards and animal welfare rules. For me it felt like a good “challenge” to care for more cows and have more people working on my farm. I wanted to enhance my standard of life and have more time for my family. At the time, my neighbouring farms were on sale and so I took my decision and went to my bank to talk about loans. And I am glad how it is going now. As is it, I will still be able to have more cows in future.

What is the milk price you are currently being paid?

I get 2.60 Danish crowns (35 cents) for a litre of milk with 4.0% fat and 3.4% protein. It is the highest price I have had for some years. I do not make any profit. But this is because I have so many credits to pay back and costs to maintain the farm are quite high. And feed costs have gone up slightly, too. The price could still be better, but I am satisfied.

Do you know how much you earn per hour? How much you can take out for you and your family every month?

I work as much as I can and at the end of the year I see how much I can take out for my family in total. The income of my wife also goes into the farm income. So just now, I cannot say exactly how much I earn from milk production. But we take out some € 2,600 for the family every month.

What happens on your farm at the moment?

We are finishing the harvest. And I can say the grass has been quite good and the corn seems to have good nutritive value, too. I just spent two half days off with my family on an island. Something that is possible because my employees look after the cows when I am not here.

Thank you very much for this interview.

Flemming Jørgensen, Vice-president of Landsforeningen af Danske Mælkeproducenter (LDM)
He is 37 years old, married and has three children, his wife works outside the farm.
He employs three Danish full-time workers on his farm.
The farm has 220 ha of land (100ha corn, 80ha grass, 40ha wheat / barn), 250 cows, 2.3 million litre quota, on-farm raising of the followers, free-stall barn, 9,800 litre / average milk yield per cow.
Renting of apartments in former farm houses as third element of the family income.

Sonja Korspeter, EMB.

The French Minister of Agriculture's misguided contracts

In spring 2010 the French government passed a new Agriculture Market Act, the LMA (Loi de Modernisation Agricole). One of its aims was to improve the producers' position in the market. The act obliged private dairies to draw up a contract for their producers by 31.03.2011.

The dairies used this new contractual obligation to extend their power over the producers. The farmer is tied more closely to his dairy by the most diverse new terms of contract. He has, for instance, to supply one twelfth of his annual quota every month. Any deviations, regardless of the reasons, result in penalty payments. Yet the contracts contain no agreements on calculating milk prices or adjusting the volume of milk to changing market demand. So the milk producer has no scope for action and negotiation whatsoever. He can only supply or make use of his option to terminate the contract, albeit in compliance with the two-year notice.

Relatively few milk producers have so far signed such a contract (only about 5% of French milk producers). Several hundred forwarded the contract they received from the dairy immediately to the French Minister of Agriculture Le Maire, telling him he was welcome to sign the contract, they certainly would not.

What is particularly serious about the new act is the fact that, as in the European Commission's Milk Package, co-operative dairies are basically exempted from the obligation to enter into contracts with their members. So, by 1.7.2011 the management of the co-operatives amended their constitutions without the amendments having to be ratified by the Members' Meeting. For instance, the milk producer has to procure everything the dairy has by way of consumables or feed from the dairy. The costs are then deducted directly from the farm-gate price. It is not possible for the member of the co-operative to object to these constitutional amendments. 12 billion litres of the 22 billion litres produced in France are affected by this exception clause, i.e. almost 55%.

Setting up the France Milk Board

In spring 2011 APLI, in conjunction with OPL (Organisation des Producteurs de Lait) and the Confédération Paysanne, set up the FRANCE MILK BOARD (FMB). It is a producer organisation which is not affiliated to any dairy or association and which is open to any milk producer, regardless of whether he supplies a co-operative or a private dairy. It is to be the producers' arm of the French monitoring agency "Office de lait". Its aim is to encourage as many dairy farmers as possible to authorise the France Milk Board to negotiate with their dairy on their behalf and thus gradually build up an economic milk producer organisation that acts as a real counterbalance to the dairies. The FMB drew up a concrete model contract to regulate relations between the dairy and the FMB/the producer, enabling the dairy farmer to negotiate on a level footing with the milk processors. Its most important clause is that the farm-gate price to be paid must cover the average full costs of production. But what is new about this contract compared to the standard contracts is above all the fact that it regulates relations between the producer and the dairy through the mediation of the producer organisation France Milk Board. Were it applied to the majority of the French milk producers, it would be a huge step forward in terms of the producers' equal share in the market.

Yet contracts are meaningless if the total volume of milk on the market does not correspond to demand at cost-covering prices. That is why an independent European market monitoring agency is essential for controlling the dairy market in line with demand and preventing future crises. The dramatic developments in Switzerland make it very clear that, unless firstly the producers' position is strengthened and secondly a body stipulating volumes is set up <u>before</u> the EU abandons the quota system, there will be serious problems for producers and consumers.

Anton Sidler, Member of the EMB Executive Committee and of the APLI Executive Committee

Poor farm-gate prices in Galicia

The majority of Galician dairy farmers are on the verge of going under, according to the broadcaster Antena3. "Nearly 90% of income goes straight out again to settle bills", says José Antonio, member of the "Gremio de ganadería".

The farms' profitability is either low or non-existent. "The farm-gate price is consistently low, but feed is becoming more and more expensive, as is fuel; what you get for a calf is so little you're practically giving it away", José Antonio continues. The situation is becoming tougher and tougher, he says, and some dairy farmers have already had to weigh up whether to call out a vet when a bull calf is sick. For the vet's bill is much more than the price fetched for the calf. *If* the calf can be sold, that is, because the meat market is in steep decline, demand is low. In theory a calf has to fetch 150 euros to cover the costs, but in reality it is rare for it to achieve more than 40 euros these days. The farm-gate price is 30 cents a litre, which is exactly what a kilo of feed costs at present. At the moment Galician farm-gate prices are the lowest in Spain.

Report from Antena3

ARC calls upon European citizens to play their part

The core Group of ARC2020 gathered near Brussels on 6 and 7 October to discuss the Common Agricultural Policy (CAP). The EMB was also present.

In a press release afterwards ARC called upon the citizens of Europe to continue fighting for a truly sustainable CAP, in which funds are used fairly, fair incomes are ensured and economically viable rural areas are created.

ARC feels supported in their views because the citizens of the EU already spoke out in the Eurobarometer that they want a sustainable food and farming policy with fair incomes for farmers and investments in the rural areas.

The new proposals of the European Committee for the CAP are not at all a real reform, as promised, but a further move towards industrialised agriculture. It seems that the Commission lacks real courage to take the necessary steps to make a change. Continuing with export subsidies, intervention, private stock and insurance mean no real change but more of the same: price volatility will stay, and farmers will still be forced to produce without knowing upfront what the price will be. Incomes stay below cost price and necessary investments will not happen because of the bad income situation.

Of course there are some good intentions in the Commission's proposals, like the intention to shift to resource-efficient local food production based on biologically diverse agro-ecosystems resilient to climate change. But the proposals do not yet address the massive dependence of agriculture on fossil fuels and imported feed.

As for the rural development proposals, ARC also welcomes the movement towards multi-funded local development strategies, drawing from different EU funds. However, the proposals do not promote the economic, social and environmental rebirth of rural areas that ARC called for last November. This is needed in order to achieve territorial cohesion and to realise the rich contribution which rural areas can make to the EU2020 goals.

To address the citizens of Europe, ARC makes the Reform of the CAP a matter of the whole European society. A good thing, since the position of farmers in the CAP is not taken into account as much as the benefit for multinationals. And that is not what taxpayers are willing to pay for any longer. Together we will mobilise our political forces and make a change for the better.

Sieta van Keimpema, Vice-President of the EMB