# MILK-NEWS

**EMB Newsletter January 2012**

Dear Dairy Farmers and Interested Parties,

2012 has just begun and things are even more uncertain in the dairy market. This is all down to the worldwide increase in milk production and at the same time high risks in economic development. We know from experience that economic crises quickly result in lower sales of dairy products. So we are prone to a dairy market and price crisis at any time.

Many of those responsible for policy-making and in the European Commission seem to be aware of this. There has not been so much talk of crisis management for a long time.

But what instruments are available? Which ones are to be used when, and according to what criteria? What are the crisis management aims? Is the intention to create stability and a functioning market for producers and processors right through to consumers? Or is the idea just to prevent a total collapse of the dairy market by only intervening, as in 2009, when the farm-gate price is 20 cents?

The debate about the margin is of key importance here. The less the dairy farmers earn, the more critical the situation becomes. That is why mechanisms must be found that shift into gear when the margins fall, and help prevent the kind of crises we have experienced.

The members of the European Milk Board are convinced that flexible supply management through an independent market monitoring agency is the best way to overcome this insecurity. And we are no longer the only ones in favour of such a solution. Colleagues from other sectors are also now advocating volume control measures – such as Wyno Zwanenburg, the Chairman of the Dutch Pig Breeders' Organisation (NVV), who is calling for a limit on the quantity of pork produced in the EU.

We still have the milk quota. The time until 2015 ought to be used in the event of a crisis to submit the instrument of voluntary volume suspension to a stress test. Such a measure has been discussed by the Commission itself. The margin can be taken as the criterion for the right moment to apply it. New instruments have to be fully developed by 2015. The time for experimenting will be over then.

As milk producers we also have to push ahead in 2012 with the pooling of raw milk to enable us to exercise the bargaining power over our product and its price in a balanced market. Contracts in themselves are not a solution. But it is through contracts between widely established Milk Boards and dairies that milk producers can take an active part in the market again and not just supply milk but sell it at a fair, cost-covering price.

In this Newsletter there is also an article on the progress of Fair Milk. It is now available in five countries in different forms. It is not only a good product at a fair price; it also makes it easier for us to strengthen the dialogue about fair prices with consumers and social organisations.

At the International Green Week in Berlin the EMB will be presenting its positions at a press conference as well as Fair Milk on a trade fair stand to a wider audience. In a public discussion with EU Commissioner Dacian Ciolos organised by the "My Agriculture" campaign we as the Board of the EMB will be putting forward the milk producers' view along with other social groups.

I wish you all a lot of energy and all the best for 2012.

We are on the right track!

Kind regards,

*Romuald Schaber, President of the EMB*

**Fair Milk Europe presented at the Green Week in Berlin**

The European Fair Milk family will be introduced together for the first time to the general public at the International Green Week in Berlin from 20 to 29 January. The Fair Milk initiatives of EMB countries Austria, Germany, Belgium, Luxembourg and the Netherlands will be sharing a stand at the Agricultural Fair in hall 24, where information will be given out on Fair Milk and people can also try the different products. Besides drinking milk from Germany, Austria and Luxembourg there will also be chocolate milk from Belgium and the Fair-Trade chocolate milk from the Netherlands to sample.

**What is Fair Milk?**

What all the Fair Milk initiatives have in common is the fair farm-gate price, which is about 10 cents more per kilo of milk. This price covers the costs of production, enabling the farmers to run their farms on a sustainable basis. For only with a fair price policy can family-run farms stay in the market, produce high-quality milk and help conserve cultural landscapes.

**It all started in Austria**

Austria's IG-Milch was the first in Europe to introduce its own brand "A faire Milch" in June 2007. Since then it has been marketed successfully as "fresh for longer" drinking milk and since 2010 also processed as "fair yoghurt".

In the following years the Austrian concept was adopted by the European Milk Board (EMB) and extended to four more countries in conjunction with the national member organisations. The likeable advertising cow Faironika is also now to be seen in the national colours of many EU countries.

In January 2010 the German Dairy Farmers' Association launched the "Die faire Milch" brand. It is marketed with 1.8% and 3.8% fat as long-lasting drinking milk.

Luxemburg has had Fair Milk ("D'fair Mëllech") as UHT milk with 3.5% fat since February 2011. In Belgium it has been on sale since May 2010 under the "Fairebel" label as 1.5% long-lasting drinking milk and as chocolate milk. In addition the "Faire Eis" ice-cream has been available in four delicious flavours as a regional pilot project in Belgium since 2011.

The latest member of the Fair Milk family is the Netherlands, where the Dutch Dairy Farmers' Association (NMV) has been marketing a Fairtrade chocolate milk since last November. It stands not only for a fair milk price but also for fair trade with developing nations.

**Fairness and sustainability**

So, fair prices and sustainable, preferably regional production are the basis of the European Fair Milk initiatives. Some countries even go beyond this promise, guaranteeing the consumer GMO-free feed, a commitment to an environmental protection project (Germany), or grazing of the cows and fair trade (the Netherlands).

And everyone turning up at hall 24 during the Green Week will see for themselves that there is no doubt that the European Fair Milk has one thing above all: an incomparable natural taste!

For more information on the individual initiatives:
Austria: Austrian Federation of Grassland and Cattle Farmers (IG-Milch): www.afairemilch.at
Germany: German Dairy Farmers' Association (BDM): www.die-faire-milch.de
Belgium: Milk Producers' Lobby (MIG): www.fairebel.be
Luxembourg: Lëtzebuerger Mëllechbaueren (LDB): www.fairmellech.lu
Netherlands: Nederlandse Melkveehouders Vakbond (NMV): www.defairemelk.nl

*Silvia Däberitz, EMB*

**The Swiss Dairy Industry's erroneous ABC**

An article that appeared recently in the Swiss magazine "LANDfreund" puts it in a nutshell: although the dairy sector is struggling with surpluses and the butter mountains are piling up, the milk processors ordered even more milk (an extra 1,423 tons) in 2011. Yes, they even ordered 100 million kilos more than the farmers could supply. *And* they then make the farmers pay into market relief funds so that the extra volumes of surplus products can be exported.

The inter-branch organisation BO-Milch still maintains that the problem will be solved by the segmenting in A, B and C milk. This segmenting was introduced in January 2011. So far it has had no effect, as the article proves: "*In the first quarter of 2011 allegedly no C milk was delivered and processed. So no butter or low-fat milk powder could be produced for the world market. Yet the butter mountain still grew. In the second quarter of 2011 the first C milk contracts appeared. The producers say they sold 12,000 tons of C milk, whereas the processors allegedly processed 44,000 tons, almost four times as much C milk. Where this C milk came from is anyone's guess: BO-Milch publishes no figures from which conclusions can be drawn about individual companies. In the third quarter the producers claimed to have supplied 31,000 tons of C milk, whilst the processors maintained they had received almost double that volume, 54,000 tons.*"

According to BO-Milch about 90% of the total annual volume of milk had to be in the A segment, i.e. processed into dairy products with border control for the domestic market and dairy products compensating for the raw material price. But the processors never bought more than 77% A milk, and the producer organisations never sold more than 82% A milk. On the other hand the volume of C milk went up, which is intended for milk products to be exported to the world market without being subsidised.

A milk should actually fetch 64 centimes (53 cents), B milk 53 centimes (44 cents) and C milk 28 centimes (23 cents). But 28 centimes does not even cover the costs of feed and vets' bills in Switzerland. Anyone producing at the C milk price is out of pocket. To make sure the farmers supply C milk, though, the milk dealers pay them mixed prices: some 40% of dairy milk is sold at mixed prices, so the farmers have no choice whether they supply A, B or C milk. Yet when the milk is segmented, the processors artificially raise the C milk price to make sure they are supplied with C milk. The price is supported by money from the market support fund which the dairy farmers finance. And so it is full circle again: the farmers are first asked to milk more, they are then paid a low farm-gate price because the milk volume is allegedly too large, and finally they are even forced to finance the surpluses.

So far, segmenting has neither controlled the volume of milk nor supported the farm-gate price. The allocation into segments is totally arbitrary and lacking in transparency. The reference prices are adjusted by the processors as they see fit. Anyone still believing that segmentation will solve the problem of overproduction is not just naïve but living on another planet.

Recommended reading: http://www.faire-milch.ch/upload/landfreund_3_1_12.pdf

*Werner Locher, BIG-M*

**"Do we have to pay a high price tomorrow for today's cheap milk!?"**

The 6th Symposium of the German Dairy Farmers' Association (BDM) is being held in Berlin on 21 January. This year the leading question is "Do we have to pay a high price tomorrow for today's cheap milk!?"

Once again there will be top-level speakers: after words of welcome from the Polish Minister of Agriculture Marek Sawicki and Dr. Gerd Müller, the parliamentary Secretary of State of the German Federal Ministry of Agriculture, Food and Consumer Protection, Prof. Christoph Lütge (Chair of Business Ethics at Munich University of Technology), Wyno Zwanenburg (President of the Dutch Pig Breeders' Organisation), Florian Dittrich (Analyst at the European Commission) and Peter Guhl (President of the MEG Milch Board w.V.) will each comment on the issue in a brief speech.

The agricultural policy spokespersons of the Social Democrats, Left and Greens will also present their parties' positions on the dairy policy. The ensuing panel discussion will be chaired by Hans Foldenauer, spokesman for the Board of BDM e.V. The BDM looks forward to large numbers of visitors and a stimulating discussion! 21 January 2012, 13:30-17:00 hours, Berlin Fair; ICC Berlin, hall 2.

*From: BDM press release*

**Myths of innocence – How food speculation feeds hunger**

“Poor harvests due to drought are to blame”, plus the increasing demand for maize as feed in meat production and the manufacture of bio-ethanol are gleefully cited by stock market speculators as the only reasons for the massive fluctuations in the world price of maize since 2006. Financial speculation, they say, is not at all to blame for these fluctuations; it merely exposes distortions in the real markets, thus reinforcing price developments that were already underway. Is that true?

Dirk Müller, a well-known stock market expert, is of the contrary opinion and says this is a myth. The influence of the financial players on world prices of staple foods and thus on the spread of hunger is considerable, he says, and urgently needs to be curbed by politicians.

In the past, futures markets provided a very useful service for agriculture. “The farmer could already sell the wheat that was still in the field to a mill operator although it would not be harvested until a few months later. Both parties were able to calculate their businesses better, as they knew at what price they would buy or sell their product. In this way both sides were able to hedge against any price fluctuations.”

After 2000, though, the financial authority rules were relaxed and only a fraction of the equivalent value of agreed contracts had to be deposited as a security margin. Since then more and more speculators have thronged to the futures markets, either directly or through raw material funds. Together with the raw material deals that are not even made via stock exchanges the trade in raw materials is worth 2.92 trillion dollars, which is roughly the gross domestic product of the Federal Republic of Germany.

**Financial speculation produces dramatic price fluctuations**

“When a seller sees that there are many buyers in the market wanting to buy his goods he raises the price.” Moreover, a speculator buys when he can assume that the goods he is buying will become scarcer and so more valuable. He buys wheat, for instance, when drought is approaching. Müller goes on to explain: “The globalisation of the financial markets has resulted in an extreme herd mentality among the market players. (...) Each is guided by the behaviour or expected behaviour of the other market players, thus exacerbating the trend.” In the case of drought this can mean that the shortage of supply causes the price to rise not by just 10 per cent but to even double.

On the other hand prices can fall just as quickly and excessively. This happened in 2008 during the financial crisis when many investors had to sell their futures in maize to cut their losses. The price started to fall as a result. Others had to sell because the plummeting prize of maize had swallowed up their security. And so the price dropped, although the reasons initially stated for increased demand for maize and the lower yields due to the drought still applied. “So for a long time now the price development of goods has been determined not by the real producers’ supply and consumers’ demand but by the laws and interests of the financial markets.”

**Virtual sacks of wheat and the price of a loaf**

These price developments on the stock exchange have a direct impact on the real food market prices worldwide. According to Dirk Müller the economies most affected by severe price fluctuations are those heavily reliant on staple food imports and whose governments’ scope for “buffer measures” is limited. In twelve African countries studied, food prices rose by an average of 63% between 2007 and 2008. When households in developing countries spend 80% of their income on staples, price increases of that order come as a shock that is hard to bear. Hunger and malnutrition are the result. The World Bank estimates that 44 million people in the world fell under the absolute poverty limit between June 2010 and April 2011 because of the food crisis.

Dirk Müller presents four measures the politicians should implement to curb speculation on food and its catastrophic consequences. 1) Greater transparency to be created by making it compulsory for raw material futures and derivatives to be traded on the stock market. 2) Speculators to be frightened off by an increase in the securities to be lodged. 3) Upper and lower price limits to restrict extreme price fluctuations without interfering in standard market pricing. 4) Speculation on particularly sensitive raw materials such as maize and wheat through funds to be utterly forbidden.

*Summary of Dirk Müller's original text: Myths of innocence – How food speculation feeds hunger, published by Misereor, 12 pages, original text in German available from* www.misereor.de.

*Sonja Korspeter, EMB*

**Little (milk) power despite top position**

*There is presidency and there is presidency. Whereas a US President, for instance, has extensive powers to exert considerable influence on the course of politics in his country, it is a completely different ball game with the EU Council Presidency.*

The EU Council Presidency switches from one member state to the next every six months. After Hungary, which held the presidency in the first half of 2011, it was Poland that had the Council Presidency. This meant that Marek Sawicki – a progressive Farm Minister – was responsible for agriculture. However, he had scant opportunity to influence the EU Council of Agriculture's policy. Despite his efforts to implement regulation of the dairy market supply after 2015, the EU Council of Agriculture's decisions are unfortunately only aiming in a direction that does not admit intelligent market control. *(The EMB reported on the results of the trialogue between the EU Council, Parliament and Commission on the Milk Package in the December 2011 Newsletter).* Nevertheless, it is important to recognise that among the EU Ministers of Agriculture there are those in favour of regulating supply.

One reason for the Polish Minister's attitude is his knowledge of the problematical milk issue from his own experience. Marek Sawicki is a milk producer himself and knows that stable prices are not possible without control of supply. He has worked long and hard to assert this knowledge in his own country. Unfortunately many of his EU colleagues are not so advanced and still have to be convinced.

***Brief synopsis of Poland's dairy industry***

Marek Sawicki is Minister of Agriculture in a country featuring very different farm structures in the dairy industry. In southeast Poland they are predominantly very small dairy farms with fewer than five dairy cows, essentially producing for their own consumption and direct selling. In the west besides numerous small farms there are also very large ones. Here the milk is processed by, for instance, international dairies like Danone, Lactalis and Zott. The northeast is characterised by local dairy co-operatives and farms with 10 – 20 dairy cows.

Supplying and directly marketing about 9.11 million tons of milk in the 2010/2011 supply year, the Polish farmers undershot their quota of 9.6 million by about 490,000 tons.

*Silvia Däberitz, EMB*

**Sweden: short review 2011**

It was a turbulent year in the Swedish dairy market. The Milko dairy was threatened by bankruptcy and is now part of the big Danish / Swedish co-operative Arla. This means that Arla has a strong dominance in Sweden. The other big change is that Skånemejerier, a dairy in the south of Sweden, has been sold to the French dairy Lactalis. As a result, Skånemejerier will from now on act as a producer organisation selling its milk to Lactalis. We have not yet seen the impact of these big changes on the dairy market and dairy farmers in Sweden. So far both the former Milko and Skånemejerier producers are happy with these solutions. It would have been much worse if Milko and Skånemejerier had gone bankrupt. We must not forget, however, that the economic situation on the Milko farms is still very difficult. Therefore Sveriges Mjölkbönder, together with the Board of Agriculture, is working on a solution to support these farmers financially. It is very important for Sveriges Mjölkbönder to ensure that no member gets in trouble as a result of these changes: no easy job to do.

*Maria Mehlqvist, Sveriges Mjölkbönder*

**"We've had enough!" - Invitation to demo in Berlin**

Just as it did last year, "My Agriculture" (a civil-society alliance in Germany advocating a different agricultural policy) is again organising a demonstration during the International Green Week in Berlin. Last year with the motto "We've had enough" more than 22,000 people took to the streets to protest in unison against dioxin scandals, genetic engineering in food and other issues.

This year the protest is focusing on the reform of the European Agricultural Policy until 2020. The German federal government is still blocking any genuine reform. That is why there will be another demo when the EU Ministers of Agriculture meet in Berlin on 21 January! Many thousands of demonstrators are expected again this year. Be there, when from 11:30 hours on from Berlin Central Station the cry will be: We've had enough! We want farms, not industrial agriculture! Yes to sustainable family farming and respect for animals! Yes to the human right to food! For more information go to: http://www.wir-haben-es-satt.de/start/home/

*From: Meine Landwirtschaft press release*

**The current situation in Austria**

The way will be paved in the next few months for the implementation of the CAP 2013. The views taken by IG-Milch with regard to the CAP reform are:

- A cost-covering farm-gate price with hands-on market control (European monitoring agency) based on full-cost accounting
- Slashing of red tape
- Greater legal security vis-à-vis the AMA (Agricultural Market Austria) (a raft of sanctions must be laid down owing to a new programme and be valid throughout the funding period)
- An improvement in the social position of jobs in agricultural, funding components for jobs in agriculture that are subject to social security contributions
- Milk production linked to the grassland area – protection of the grassland area
- An improvement of the farmers' position in the value chain – setting up and promoting producer organisations
- Compensatory payments must be based on a working time model

We at IG-Milch will be presenting these views in the next few months during several panel discussions. As ever, collaboration with NGOs is being intensified to make our common demands and interests even clearer to the general public. Otherwise the milk sector situation is calm at the moment: milk prices are slightly up on the previous year, but they are still patently too low to make it possible to farm and cover costs. On top of that, production costs are rising disproportionately, creating an additional financial burden.

Intense pressure is still being exerted on the suppliers of "Freie Milch Austria": the threat being issued is that it will no longer be possible to switch from "Freie Milch Austria" to another dairy or only possible with great difficulty. The Austrian dairies are still paying higher farm-gate prices that do not reflect the current dairy market situation. The dairies are evidently resorting to reserves to keep prices artificially high. In this way Freie Milch Austria is being put in a tight spot. The dairies are trying to win the suppliers back with the higher milk prices.

Encouragingly sales figures for "A faire Milch" are on the increase again – further products bearing the Guat-Fair seal are due to be launched on the market soon.

*Margit Pirklbaur, IG-Milch*

**Voice from France: a lack of political cohesion**

France is currently in the run-up to the presidential elections in May 2012, where our Minister of Agriculture Bruno Le Maire will serve as an adviser to the prospective candidate Nicolas Sarkozy (UMP). At the same time we are already in the run-up to nominations for elections to the Chambers of Agriculture, in January 2013, most of them controlled by the largest farmers' union (FNSEA).

As in Denmark, the largest farmers' union in France has such a network that is has a huge controlling and guiding influence on the agricultural sector and the related industries, similar to the agribusiness, which is disastrous to and generates no profit for the farmers.

The mini-package which has just been adopted by a political agreement between the European Commission, the Council and the European Parliament will not take effect until next February; its provisions will apply until 30 June 2020. Although the quota system is still in force until April 2015, the French milk producers were given contracts by their private dairies in April 2011 and the co-operatives revised their constitutions and their rules of procedure in July 2011.

The French milk producers see in this contractualisation a total withdrawal on the part of the state, especially since it is optional under the European Milk Package. The prices are correct at present: 3,864 euros/ton butter and 2,344 euros/ton milk powder for December 2011, with a farm-gate price of 33,8 cents/litre milk announced for January; the first quarter of 2012 will follow this trend, but after that?? A drop in prices is quite likely.

Neither the Milk Package nor contractualisation will provide cost-covering farm-gate prices, and without a monitoring of supply and demand on the European level, including a part of the world market, nobody can ensure a fair and sustainable system for the entire European dairy sector. The dairies are involved in a competition situation in which they engage in a trial of strength in terms of collection, turnover and profit!!!

In France we are awaiting a decree to find out which Producer Organisations (POs) are going to be approved by law, for the moment it is the vertical POs in cahoots with the dairies that are in charge and the producers will have no position of strength vis-à-vis the dairies (a multitude of POs as in Switzerland!!), alongside the horizontal and independent France Milk Board (set up by APLI, Confédération Paysanne and Coordination Rurale).

*Isabelle Conan, APLI*

**European Milk Board**
Bahnhofstr. 31
D-59065 Hamm
Germany
tel: 0049/2381/4360495
fax: 0049/2381/4361153
mobile: 0049/1786021685
e-mail: korspeter@europeanmilkboard.org
Homepage: www.europeanmilkboard.org