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High time for action against unfair competition in the dairy sector!

International Pooling Commission of Milk Producers calls for political intervention to create a functioning dairy market in 3-point position paper

(Paris, Brussels, Göttingen, 25 April 2018): If you are looking for an example of a well-functioning market, do not spend too much time on the dairy sector. Even the German competition authority, the Bundeskartellamt, recently concluded that this sector is subject to unfair competition, which continues to hamper the good functioning of the market.

The members of the *International Pooling Commission of Milk Producers (IPCMP)* have to face the problems resulting from such distortion of competition day after day. Far from being an issue in Germany alone, this is the case in many EU countries. Therefore, the IPCMP has drafted a 3-point position paper that calls on policy-makers and the processing industry to take the necessary steps to create a functioning market in the dairy sector.

The paper states that:

1. Production costs must become the basis for the prices fixed in contracts between dairies and producers. In the current political-economic situation, the prices paid to consumers are not aligned with production costs (labour costs included). Even though they are the suppliers, producers have no way of determining the sales price. Against this background, contracts must at least guarantee cost-covering prices that consider real production costs.

A cost calculation study developed together by the EMB and the MEG Milch Board provides some guidance in this regard and is already widely-used in the main producer countries in the EUtypo3/#_ftn1.*

2. There must be a law preventing unfair competition at producer level. As is the case in trade, where products cannot be sold below cost price, selling raw milk or raw materials from the agricultural sector at a price that does not cover production costs should be prohibited.

3. Political measures to promote the pooling of milk producers must be implemented. While the EU Milk Package has created the possibility of pooling (i.e. negotiating milk supply contracts for a large number of producers through producer organisations in order to strengthen the market position of producers), it has not really been possible to effectively use this provision to date.

What's wrong with the market?

Imagine that you are a car manufacturer and you must sell a new car for less than its production value because the market leaves you no other choice. The buyer simply pays you a price he decides himself and it covers only 80 percent of the production cost. Even though you are the manufacturer, you have no way of influencing this price. In order to absorb these losses, you do not pay yourself a wage and also use earnings from other activities to cross-subsidise your car manufacturing. This is the only way – otherwise you would have cars piling up and rusting away in your new car dump. Pure fiction? Sadly not, because this is similar to what is happening with milk. The average production costs in, for example, Germany, Belgium and France are slightly over 40 cents per litre. However, much less is paid to producers, with prices ranging from 29 to 35 cents in Germany, around 30 cents in France and even less than 30 cents per litre in Belgium. Labour costs, which amount to approximately 13-15 cents/litre, are simply eliminated from the equation as a result. It is not like this has been the case for a short period of time – something that one could cope with. No, prices have been below production costs for years now. Milk producers are often forced to raise funds through other activities in order to keep their milk production going.

As the IPCMP has stated, action is required at policy level when unfair trade practices become the norm. The IPCMP's paper on eliminating unfair competition in the dairy sector is addressed to national governments in the EU as well as to the European Commission and the European Parliament.

Background

As an international association of producer organisations within the European Milk Board (EMB), the International Pooling Commission of Milk Producers (IPCMP) is committed to creating better market conditions for milk producers in the EU. The participating organisations – MEG Milch Board from Germany, France MilkBoard that unites three French producer organisations, and MIG/WAFAB from Belgium – have signed a cooperation agreement, committing to regularly exchange information and to assist each other in issues related to milk pooling, as well as to organise joint actions and draft position papers.

*Current milk production costs for France (FR) are available hereand for Germany here.

Position paper on eliminating unfair competition in the dairy sector

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