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22.09.2026

Making the EU dairy market fit for the future: The right rules are needed now

The UTP reform, the Common Market Organisation and effective crisis instruments must ensure that a functioning dairy market provides the basis for cost-covering producer prices

The European dairy market needs a framework that prevents crises and enables dairy farmers to earn an adequate income. In the view of the European Milk Board (EMB), the EU currently has a crucial opportunity: with the revision of the Directive on unfair trading practices (UTP), the further development of the Common Market Organisation (CMO) and the discussion on future crisis instruments, several important policy areas are on the table at the same time.

“We have known for many years where the weaknesses of the dairy market lie,” explains EMB President Kjartan Poulsen. “Producers are in an excessively weak market position vis-à-vis dairies and retailers, prices usually remain below production costs, and action on surpluses comes far too late or not at all in times of crisis. These are precisely the areas where European policy must act now.”

1. UTP Directive: Prices below production costs must be prohibited

A key decision concerns the ongoing revision of the EU Directive on unfair trading practices. For the EMB, it must in future also address the most important unfair practice: the purchase of agricultural products at prices that do not cover production costs. A ban on purchasing below production costs must therefore become part of the revised UTP rules. In this context, 100 percent of production costs must be taken into account. The rules must not be undermined by company-size criteria, turnover thresholds or other exemptions. At the same time, effective enforcement, deterrent sanctions and protection for producers who report infringements are needed.

“It cannot be the farmers’ task to permanently finance the food supply chain through prices that do not cover costs,” says Poulsen. “A market in which the weakest link regularly sells below its costs is not a functioning market. This is also reflected in the massive number of farmers leaving the sector.”

2. Preventing crises: Automating Voluntary Volume Reduction

An equally important step is a fundamental change in European crisis management. When surpluses build up and prices collapse, policy-makers must not wait to act until farms have already suffered massive losses – if they act at all. The voluntary volume reduction instrument demonstrated in 2016 that the EU can intervene directly in the volume of milk supplied, with a positive and price-stabilising effect. This instrument must be permanently embedded in a functioning early-warning and crisis system.

The EMB therefore calls for key elements of its Market Responsibility Programme (MRP) to be incorporated into European market policy. Market, price and cost data must be monitored continuously and clear thresholds must be defined. If these thresholds are undershot, predefined measures must be capable of being activated automatically or without lengthy political delays. This includes, in particular, an EU-wide voluntary volume reduction. The aim must be to contain crises at an early stage instead of forcing farmers – the producers of our food – to bear billions in losses.

3. CMO reform: The right amendments must prevail

The current further development of the Common Market Organisation will also determine whether the market position of producers is genuinely improved. The EMB welcomes the fact that important approaches have now found their way into amendments tabled by Members of the European Parliament. These include elements of the Market Responsibility Programme as well as the approach of using full production costs as the reference threshold for triggering market measures. What matters now is that precisely these effective amendments secure a majority in the Committee on Agriculture and subsequently become part of the European Parliament’s negotiating position vis-à-vis the Council.

Furthermore, contracts between producers and buyers must genuinely lead to a stronger bargaining position. Binding contractual terms, meaningful cost and market indicators, and effective revision clauses allowing prices to be adjusted to changes in production costs and market conditions are necessary. Exemptions must not be allowed to undermine the effect of these provisions. This is particularly important with regard to the current consultations that individual Member States are conducting with representatives of the agricultural sector and on the basis of which decisions on such exemptions are to be taken.

4. Producers must be able to strengthen their market position collectively

Individual dairy farmers face large dairies and retail companies and therefore structurally have significantly less bargaining power. Producer organisations independent of dairies must therefore genuinely be enabled to better pool volumes and negotiate prices collectively. Strong collective organisation on the producer side is not an obstacle to functioning competition – it is a prerequisite for negotiations on an equal footing in the first place.

5. Mirror clauses: The same requirements must also apply to imported products

A functioning European agricultural market cannot be achieved if European producers are subject to ever higher environmental, animal-welfare and social standards while products from third countries can be produced under conditions that do not meet these requirements. The EMB therefore calls for effective mirror clauses. Products entering the European market must be subject to requirements comparable to those applying to products from the EU. Corresponding amendments in the current legislative process are therefore of great importance from the EMB’s perspective. European standards must not result in European producers being placed at an economic disadvantage and parts of production subsequently being replaced by imports.

6. Transparent production costs must become a basis of market policy

For all these instruments to work, Europe needs reliable data on actual full production costs. Production costs must not merely be collected in order to document the economic situation of farms retrospectively. They must serve as a concrete reference in contracts, in the assessment of market crises and in political decision-making.
At the same time, transparency regarding costs, prices and margins throughout the entire food supply chain must be significantly improved. In particular, the Agri-Food Chain Observatory (AFCO) and the European Board on Agriculture and Food (EBAF) must work in a more targeted manner towards establishing the necessary transparency throughout the entire chain – from production and processing to retail. Only if it is possible to understand where costs arise, how prices are formed and how margins are distributed along the chain can the position of producers be effectively improved and undesirable developments identified at an early stage. For the EMB, the 100-percent threshold is therefore decisive: a dairy market cannot be described as healthy as long as producer prices do not cover full production costs.

7. Fair Milk: Fair producer prices are possible in practice

The Fair Milk projects in several European countries show that better remuneration for dairy farmers does not have to remain merely a political demand. They put into practice what the EMB advocates at political level: producers must receive a fair share of the sales price and their work must be adequately remunerated in economic terms. The political task nevertheless remains: what individual Fair Milk projects successfully demonstrate must be made possible for all dairy farmers through appropriate legal frameworks. Fair prices must not depend on individual initiatives or the voluntary willingness of individual market partners, but must be enabled through balanced bargaining power and functioning market rules.

Not individual measures – but a functioning overall system

Alongside the Fair Milk initiatives, the following elements are indispensable and belong together: A ban on prices below production costs prevents structural exploitation in the food supply chain. Stronger contracts and independent producer organisations improve farmers' bargaining position. An automatically activatable voluntary volume reduction prevents surpluses from leading to severe market crises. Production costs and greater transparency throughout the entire food supply chain provide the necessary objective basis. And mirror clauses ensure that European standards are not undermined by imports.

"We do not need a policy that fails to intervene or only intervenes once milk prices have already collapsed and farms are fighting for their survival," stresses Poulsen. "We need rules that prevent things from getting that far in the first place. The instruments for this are on the table. Now the Commission, Parliament and Member States must have the courage to implement them in law and then enforce them consistently."

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