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Press release: Swiss Milk Market Study proves: abolishing milk quota system produced far-reaching developments

(Brussels, 23.07.2014): "Five years after the quota system was abolished, producers still have no stable market conditions in the long run." That is the conclusion of the study presented today in Brussels of the consequences of Switzerland abolishing the milk quota system in 2009. In the study the author, Dr. Therese Haller from the Bern University of Applied Sciences, School of Agricultural, Forest and Food Sciences, exposes key results for the Swiss milk market. In addition, the study also presents findings for the future development of the EU milk market, which will similarly be abolishing its own system shortly.

Pressure on producer prices increased after definitive abolition in 2009

As the study shows first for Switzerland, the increases in milk volumes caused by the abolition resulted in Swiss industry milk having lost about 24 per cent of its value by 2010/2012 compared to the average farm-gate price of 2000/02. Cheese dairy milk lost 15 per cent of its value and organic milk 19 per cent. So far no effective private law measures to stabilise farm-gate prices have been implemented because the disunity among the market stakeholders is too great.

"The decision to abandon the quotas was based on studies and expectations that have proven to be totally wrong", says a critical Werner Locher from the Swiss milk producer organisation BIG-M. "The continuing poor prices have forced many farmers out of milk production – even some that actually had good farm structures". That is why the stock of dairy cattle decreased and this decrease was jeopardising farming throughout the Alps in particular. "This way they're chopping down one of the vital pillars of Swiss tourism. If the producers are not paid cost-covering prices this has repercussions extending far beyond agriculture", says Locher.

Greater market concentration of processors and unfavourable distribution of growth in volumes

As the study indicates, the concentration of processors as opposed to producers in the Swiss market increased following the abolition of quotas, further exacerbating the producers' position in the market. Between 2003 and 2012, the four largest milk processors increased their processing volume by 38 per cent and their share in the Swiss milk market from 44 per cent to 56 per cent.

According to the study, another adverse factor for the entire Swiss milk market is the distribution of growth in volumes after the abolition of quotas. It is concentrated in the cheap segments butter and milk powder, which can often only be exported at a loss. Another development in the Swiss milk market referred to in the study is the fact that the gap between mountain and valley regions has widened since the abolition.

Parallels between Switzerland and the EU abolition of quotas

Romuald Schaber, President of the European Milk Board (EMB), sees clear parallels between the Swiss situation and the planned abolition of quotas in the EU. "Even if the developments are not all transferable 1:1, it is nevertheless a fact that the EU also has very difficult times ahead." The market, and the producers in particular, would be left to their own devices. Schaber describes the expected consequences as follows: "Without effective mechanisms – without cost-covering prices – large numbers of farmers in the EU will also have to give up very quickly. In the end, entire regions will simply be left without any milk production."

The Bern study also reaches some conclusions on the EU's imminent abolition of the milk quota system:

- If milk production disappears from entire regions of the EU, it will be a loss to local cultural assets. It may also result in rural exodus and afforestation. In the long term this is a major problem, given the world food situation.
- The EU can expect distortions on the processor side if less is produced/sold in the long term than expected. Associated factory closures would entail far-reaching consequences on a regional level.
- The balance of power in the milk sector is not in the producers' (or the consumers') favour. The asymmetrical distribution of power amounts to a market failure in the EU.
- The EU must not lose sight of standards of quality assurance and food security, socially acceptable working conditions and conditions under which animals are kept.
- It must be borne in mind that in macroeconomic terms higher costs are justified if, for instance, this safeguards the

interests of future generations.

Romuald Schaber from the EMB would like the Swiss milk market study findings to be used to prevent the EU milk market collapsing. "Politicians would be well advised to read the study carefully and learn from the Swiss situation, so that they apply at least effective instruments to crisis situations." Because, he says, it will be a problem for all stakeholders – from the producer to the processor to the consumer and the policymakers – if abolishing quotas practically wipes producers off the market. As the Swiss situation demonstrated, the promised added value after the abolition of quotas did not materialise for consumers. The liberal blinkers must be removed and stabilising mechanisms jointly put in place.

For the complete study and a summary use this link: www.europeanmilkboard.org/en/emb/studies.html

Contacts:

EMB President - Romuald Schaber (DE): +49 (0) 160 352 4703

BIG-M Managing Director - Werner Locher (DE) +41(0) 792 368 411

EMB press contact - Regina Reiterer (DE, EN, FR) +32 (0)2 808 1935

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