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14.07.2017

Sale of milk powder from intervention prevents milk price recovery

The European Milk Board calls on Agriculture Commissioner Hogan to stop selling storage stocks at junk prices

(Brussels, 14 July 2017) On June 20, the European Commission approved the sale of a further 100 tons of skimmed milk powder from public intervention storage at a price of €185/100kg. According to the European Milk Board, these sales at below-value prices negatively affect the European and international dairy market. Furthermore, this action clearly contradicts the European Commission's own statement: *that selling at all costs was never an option for the Commission and that the maintenance of market balance and price recovery remained its main objectives.*

Romuald Schaber, President of the European Milk Board, is dismayed by this sale of intervention milk powder: "This is a stab in the back for Europe's milk producers and a devastating sign to other actors in the dairy market. Milk buyers are free to continue speculating with cheap powder." He added that milk prices, which are slowly recovering, will end up being suppressed again.

Milk powder from intervention should only be sold at a price that would not undermine price stability. Starting with production costs of over 40 cents per litre of raw milk, which is the case in countries with a high degree of intervention like France, Germany and Belgium, and adding transport, processing and marketing costs, we arrive at a price threshold of at least 335 euros/100kg milk powder. In order to reduce the enormous powder stocks of about 350,000 tons, other sales channels could be considered, for example, its use as animal feed.

"The Commission should learn from past mistakes and finally understand that intervention cannot bring sufficient stability to the dairy market," continues Schaber. If milk prices remain at the current low levels, dairy farmers will continue to produce milk in order to prop up their cash flow and storage will continue to fill up. The past has also shown that only the EU volume reduction programme had a real effect on milk prices because it directly attacked the issue of overproduction. The EU would be well-advised to implement volume reduction instruments in a timely fashion in the future, instead of simply taking surpluses of the market temporarily and thus delaying a real solution to the problem.

After Agriculture Commissioner Hogan trivialised the problem of skimmed milk powder stocks and pointed to historically high fat prices, the European Milk Board has addressed the Commissioner directly in a letter sent out yesterday: *"It is important to look at how SMP sold at junk prices affects farm-gate price. You are aware that it has a problematic effect, as the milk price is put under pressure and a price recovery is blocked. By putting such cheap milk powder on the market, you are also indicating that high value creation and fair prices in the dairy sector are, at the end of the day, of little concern to you. This does nothing to help the ongoing debate on fairness and sustainability in agriculture... You will realise that the high fat prices are sadly not sufficiently reflected in producer prices. Fat accounts for only half of the milk price; protein, i.e. milk powder, the other half. For milk prices to rise, it is therefore important to have an appropriate price for milk powder as well."*

The letter to Agriculture Commissioner Hogan also clearly states that the sale of skimmed milk powder at junk prices acts as a burden on the international dairy market and that if this practice were to continue, the European Milk Board would have to consider a legal review of the same.

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