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WHY the same mistakes in crisis management again?

For the European milk producers, private storage without EU-wide voluntary production cuts is the wrong approach

Brussels, 24 April 2020: European Milk Board (EMB) dairy farmers are reacting with disbelief to the latest measures announced by the EU Commission. The Commission's plan is to counter the increasingly spiralling crisis in the dairy sector with aid for private storage without a simultaneous EU-wide co-ordinated reduction in volumes. Just like the second current proposal from the Commission to allow milk producer organisations and interbranch associations to plan production, the instrument of storage had already been unable to halt crises in the past. As Erwin Schöpges, President of the European Milk Board, explained, the crisis could only be managed if the excess supply of raw milk was reduced by an EU-wide co-ordinated voluntary supply reduction.

That is why the private storage aid now announced should be unconditionally combined with a voluntary volume reduction scheme (including a cap on volumes). In addition, storage volumes should not be allowed to exceed 45,000 tonnes of milk powder and 60,000 tonnes of butter.

Why is aid for private storage not an adequate response to the crisis?

It cannot prevent any surpluses

It does not act on the producer level, where there is overproduction of milk. Already processed excesses are being stored – products like milk powder, cheese and butter.

It prolongs crises
Even when stored, surplus dairy products impact on the market, because they still are part of the (excess) supply. Hence, the volumes put into storage also exert downward pressure on the market price. So, first of all, crises are not resolved and, second, even prolonged. For when the stock items are sold again afterwards, they prevent a fair price recovery on the market.

It has not stood the test
Private storage already failed to stand the test as an EU crisis instrument in the past. It was used in the crisis of 2015 – 2017, for instance, yet it did nothing to stop the fall in prices on the milk market. And there was already permission for milk producer organisations or interbranch associations to plan production in 2016, and that had no effect whatsoever. That is because the sector lacks firstly the structures and secondly, with the stakeholders addressed, the finances to be able to put production planning successfully into effect to mitigate crises.

The instrument of voluntary EU reduction in volumes is by far more effective
In the last crisis, precious time was lost with the measures described above, until in late 2016 the volume reduction programme co-ordinated by the EU Commission finally put an end to the slump in milk prices. It was then that the EU price climbed back up again from its nightmarish depths of well below 30 cents and at last reached 35 cents/kg milk in summer 2017.

Why are the same mistakes made time and again?

Sieta van Keimpema, EMB vice-president, summarises the European dairy farmers' incomprehension of the present EU reaction: "It is inconceivable for us milk producers that they are resorting to these measures yet again. There are facts from the previous crises that they do not have the desired effect. It is evident that the voluntary volume reduction scheme co-ordinated by the Commission on an EU level is already a tried and tested instrument. That is why it also has to be applied now in addition to private storage with a stricter cap." But it has to be activated quickly, otherwise the crisis would already be too far advanced and a compulsory reduction in volumes necessary for every producer. "We have no time to lose, instead we have to be right on course for stability now", says van Keimpema. "Brexit will be upon us in a few months, and that will also run the sector ragged. If the current situation weakens us too much, it will be a disaster."

How can a voluntary reduction in volumes on an EU level give a proper response to the crisis?

As it is surplus milk that is causing the price slump owing to the current collapse in demand, that is precisely where to start. With a voluntary volume reduction scheme at EU level, the pressure on the milk prices could be reduced effectively. “The producers would have to be given enough compensation per litre of milk not produced to be able to face the economic consequences”, Erwin Schöpges said. Without this compensation, farmers would have to bear the bulk of the impact of the corona crisis in the sector on their own, which they are simply incapable of doing in the crisis-ridden milk market.

In the EU, dairy farmers have been demanding the use of voluntary production cuts since the beginning of the coronavirus crisis. According to EMB President Erwin Schöpges, the food producers’ opinion, shaped by the experiences of many crises, has clearly not been heard. “The political decision-makers now bear responsibility for the coming negative development of milk prices. What are the next steps they have planned? Because the current measures won’t help.” The EMB President’s message to the politicians: “If the sector is to be sufficiently stabilised, we will not be able to avoid an EU-wide co-ordinated supply reduction. Act responsibly, and act now!”

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