

DEMANDS ON A REFORM OF THE EC DAIRY MARKET REGULATION FROM THE PERSPECTIVE OF PEASANT FARMER ORGANISATIONS IN NORTH AND SOUTH

SUMMARY

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Imprint

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Published by:**Arbeitsgemeinschaft bäuerliche
Landwirtschaft e.V. (AbL)**

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Date: 31 May 2005

Order number of the complete study (only available in German): 05-1-02

The complete study in German is available for download at:

**<http://www.germanwatch.org/tw/milch05.htm> or
<http://www.abl-ev.de/hintergruende.htm>**

This study was commissioned by Germanwatch and AbL in the context of the cooperation project *Entwicklungspolitische Neuorientierung der EU-Agrarpolitik (Re-orientation of the EC Agricultural Policy in Regard to Development Policy)*. This project is supported by the Federal Ministry for Economic Cooperation and Development.

Summary of the study:

Demands on a Reform of the EC Dairy Market Regulation from the Perspective of Peasant Farmer Organisations in North and South

Production

Almost everywhere in the world, milk and dairy produce are essential elements of the daily diet. All in all, more than 500 million tonnes of cow milk are produced annually. In developing countries, not only cow milk, but also milk from buffalos, sheep and goats plays a vital role.

The main production areas of milk and dairy produce are Western Europe, North America, the Indian subcontinent and Oceania.

As a result of the enlargement of the European Community in 2004, the total production within the EC has risen from 122 million tonnes to 146 million tonnes. The quantity of produced milk, however, has remained relatively stable in each member state, due to the common organisation of the market in milk and milk products (COM).

In comparison, milk production on the Indian subcontinent and in China has risen dramatically during the last 20 years. Nowadays, India is the country with the highest level of milk output (more than 90 million tonnes). In China, milk production has more than doubled within the last decade, and today China produces 22.8 million tonnes of milk. In India and China, milk production is concentrated almost exclusively on small-scale farms with just a few number of animals per farm. In total, there are more than 85 million dairy farms in India alone (whereas there are approximately 650,000 dairy farms in the EC).

In the USA and Canada, 98,000 farms produce a total output of 85 million tonnes of milk. In the United States, the size of the average livestock consists of slightly less than 100 cows per farm, and milk production amounts to 8,000 kg per cow and year, which is the highest output in the world.

Although Australia and New Zealand together just produce slightly less than 25.2 million tonnes, they play an important role in the international trade with dairy produce. The milk output per cow is significantly lower than the output levels in North America and Europe, but dairy farmers in New Zealand can produce milk at low costs as a result of favourable production conditions (pasturage all year round, large herds, low investments in pastures and cowshed technology).

In South America, there are large and cost-effective production potentials for milk production. In Brazil, milk is still produced by many small-scale dairy farms, whereas large farms with more than 100 dairy cattle dominate the milk production in Argentina.

In many African countries, milk production has been rising; nevertheless the per capita supply is decreasing in all African countries because of the growth in population. Compared to other countries, milk output per cow is relatively low (less than 2,000 kg).

All in all, the share in milk production of developing countries has risen from 19.5 % in 1960 to presently 42 % as a result of developments in Asia and Latin America.

Trade

Transnationally, butter, milk powder and cheese, but also concentrated milk, acid casein and butter oils are traded. In total, about 7 % of total milk production is traded on the world market. This world market is dominated by developed countries from Europe, Oceania and North America.

The EC is the largest supplier for almost all kinds of dairy produce. New Zealand has increasingly expanded its exports during the last years, and together with Australia, has strengthened its presence on the world market.

The import demand is significantly more fragmented than the export demand. Main import regions are the EC, followed by the USA, Japan, Russia, Mexico, and China. In total, Asia imports 16 million tonnes and Africa 5 million tonnes of milk equivalents.

Some densely populated nations in Asia are regarded as future markets for EC exports. In fact, China, Russia and India have experienced a rapidly expanding domestic demand for dairy produce, as the purchasing power has increased, the awareness of health has changed, and the population has adapted to western behavioural patterns or has become more and more urbanized. These countries seek to meet the increased demand by boosting the domestic capacities for milk production and processing. Russia has invested massively in its domestic milk processing capacities during the last years. Within one year, Russia's cheese production rose by 30 %. In India, which seeks to protect its domestic dairy farmers by high tariffs against cheap imports from Europe and New Zealand, relatively high producer prices encourage farmers to expand their existing dairy cattle livestock or to start dairy farming. China, however, is presently not able to meet its domestic demand for milk and dairy produce, despite its rapidly growing domestic production. As a result of high demand and tariff reductions after China's accession to the WTO, milk powder imports from New Zealand have increased.

Processing and trade are dominated by large dairy companies, with headquarters situated almost exclusively in wealthy western nations. In 2004, the Swiss corporate group Nestle was by far the largest dairy company worldwide, with an annual turnover amounting to 15.3 billion dollars. In 2002, 23 of the 35 largest dairy companies in the world were situated in Europe, five in North America, three in South America, three in Japan, and one in New Zealand.

The **producer prices for milk** differ significantly around the world. Depending on location, prices range from US\$ 0.10 to 0.50 per kilogram of milk. Milk producing countries can roughly be classified into five price groups:

- less than US\$ 0.15 Argentina, Brazil, Pakistan
- US\$ 0.15 to US\$ 0.22 India, Australia, New Zealand
- US\$ 0.22 to US\$ 0.25 East European nations, Bangladesh
- US\$ 0.25 to US\$ 0.35 the EC, USA, China
- more than US\$ 0.35 Switzerland, Norway, Canada

Producer prices do not only vary significantly from country to country, but may also differ from region to region within one country. In China, for example, the milk price in regions near towns and cities is about 8 cents per kilogram higher than the price in rural regions.

The Milk Market within the EC

Milk production is the most important source of income for many European farms. Production structures are mostly very small. Often, farms situated in pasture regions have no economic alternative to milk production. In these cases, up to 80 % of agricultural value added originates from milk production. Especially in Northwest and Central Europe, milk production is of particular importance. In the EC, more than one million people work in the dairy sector including processing.

The EC milk market is extensively regulated. There is almost complete protection against exports from non-European countries; only a few countries, such as New Zealand, can import dairy produce into the EC on the basis of specific bilateral trade agreements.

The quantity of milk produced in the EC is controlled by a **quota system**. For many years, however, the EC has produced approximately 10 % more milk than the Europeans are consuming.

On average, producer costs in the EC are significantly higher than in many other milk producing countries. To be able to sell this expensively produced dairy surplus at all, the EC pays annual refunds of 1-2 billion Euros to export companies (**export subsidies**).

2003 Decisions of Luxembourg on the Reform of Common Agricultural Policy (CAP)

These decisions on the present CAP reform were intended to expand the milk output in the EC and to cut intervention prices and intervention quantities.

The present market organisation is expected to become less important for price formation. As a result, producer prices for milk will fluctuate more in the future, and dairy farmers will most likely come under greater economic pressure.

The dairy surplus problem in the EC will not be solved by the decisions of Luxembourg, but intensified instead. Intervention prices of skimmed milk powder and butter were cut in advance to comply with future requirements of WTO negotiations. If producer prices and subsequently raw material prices for dairy companies decrease, costs for export subsidies will be reduced without reducing the financed export quantities as well. The basic mechanism is maintained: High surplus is produced in a purposeful manner and sold on the world market supported by export subsidies at changing levels in order to drive other suppliers out of market. As a result, the world market remains under pressure from European exports.

This is the reason why the revenues from the dairy produce of other milk exporting countries (especially New Zealand and Australia) have stabilised at the present level. For developing countries, such as India and Pakistan that could play a more important role on the world market in the future because of their cost-effective production structures, the dumping by the EC acts as a deterrent. There is a big risk that permanently low prices on the world market as a result of dumping by the EC will prevent them from doing business. The chance to support their exports by new national export subsidies seems rather questionable and can scarcely be translated into practice due to existing WTO provisions.

Due to the reduction of the EC intervention prices, it is expected that producer prices will drop, so that European dairy companies will have to pay less for the raw material milk which increases their competitiveness when selling their products (especially cheese) without export subsidies.

If the EC has to reduce its customs duty as a result of the next WTO negotiations (the proposal of Mr. Harbinson suggested a reduction by 50 %), the resulting lower prices on the domestic market will prevent high imports of dairy produce into the EC.

These low milk prices pursue several objectives:

- to force a structural change within the milk production sector;
- to limit the total volume (value) of export subsidies, but not the quantity of subsidised goods;
- to try to procure an increasing market share on world markets (cheese products, full-cream milk powder);
- to protect the domestic market despite halved tariffs (in future);
- to eliminate the quota system and shift milk production to favourable locations with low production costs as a long term goal.

Through decoupled subsidies (single farm payment), the liquidity of dairy farmers is protected to a certain degree even if producer prices remain depressed. The decoupled single farm payment encourages farmers indirectly to maintain milk production despite decreasing producer prices thus guaranteeing that the raw material milk is produced in required quantities in Europe. Therefore, the decoupled payment would cause an indirect support for exports. The study assumes that the majority of dairy farmers would not respond with quantity reductions to falling prices because the dairy farms' structure impedes prompt quantity adjustments. Moreover, many dairy farmers, especially those located in pasture regions, have no alternative source of income to milk production.

However, it remains to be seen how far the milk price can drop or how long dairy farmers accept milk prices below their production costs. The decoupling of premium payments has at least the effect that dairy companies cannot directly obtain government subsidies as easily as before and as a result dairy farmers benefit more from this regulation than from coupled compensatory payments.

The milk quota price will decrease considerably because of the possible drop of the milk price and the decoupling of premiums from quotas. Therefore, operational growth will be facilitated.

It is questionable how landuse will look like in the future. If milk prices do not cover the costs of production, bio-mass production or minimum tillage (mulching of pastureland) could be potential alternatives to milk production and eventually become more accepted.

Consequences for Developing Countries

This policy puts pressure on developing countries in several ways:

1. Their export chances for dairy produce decrease as a result of the continuing strong market presence of the EC on the world markets. The reason is that developing countries usually do not have the financial means to access and dominate export markets by using export subsidies and to encourage their domestic producers' production output with transfer payments that make production factors like land and labour cheaper (cross-subsidies). Moreover, the WTO Agreement on Agriculture prohibits the introduction of new export subsidies.
2. Further tariff reductions on dairy produce within the framework of future negotiations in the WTO lead to increasing imports in developing countries, but not in the EC, and put their domestic milk production even more under the pressure of the price dictate of the world market.

Necessary Reform Steps

In contrast to the present export-oriented policy of the EC, a milk market policy should be developed that holds a perspective for peasant dairy farms in the North and the South, protects sources of income in rural areas, and guarantees milk production while securing sustainable use of natural resources as well as protection of environment and animal welfare.

To achieve these objectives it is necessary:

- to keep the milk price at a level that guarantees adequate income for dairy farmers;
- to link milk production to environmentally compatible land use;
- to reduce the EC's milk output to a level that prevents a surplus;
- to link compensatory payments and transfer payments to ecological and social criteria;
- to allow developing countries to protect their domestic markets.

To implement these objectives the following measures are suggested:

1. Elimination of export subsidies within five years. Then, only high-price products such as cheese can be exported from the EC. The reduced milk exports would lead to some milk surplus on the Single European Market, which must be taken into account when reducing the milk supply. This creates new export chances for Australia and New Zealand on the world markets, but also for emerging countries like Brazil and India.
2. Gradual reduction of the EC's milk output to create a balance between supply and demand. Additionally, a flexible system to regulate the milk output must be introduced into the common organisation of the market in milk and milk products (COM). Target price is a milk price of 35 cents per kilogram milk (analogue to average full costs in European dairy farms). If the target price is not reached over a longer period of time, quotas will automatically be reduced until the target price is reached.
3. In order to end the discrimination of peasant small-scale dairy farms in favour of rationalised large-scale farms, transfer payments by the EC must be linked to social and ecological criteria. This could be achieved by a graduation of direct payments linked to the actual labour costs of the farms. Besides that, the following segments must be strengthened through transfer payments from the second pillar of the Common Agricultural Policy (CAP):
 - milk from pasture farming;
 - milk from special regions (for example from low-mountain regions);
 - milk from milk cattle with low input of concentrated feed, without GMO feed etc.
4. Furthermore, reforms would be required on the WTO-level to allow all countries of the world to protect their domestic milk production against imports produced under lower social and ecological standards (qualified external protection or market access) since it has special significance for labour and environment. A price level enabling production according to these high social and ecological standards therefore benefits producers in importing as well as exporting countries. However a prerequisite for this approach is **that subsidies or cross-subsidies for exports are eliminated**. With this proposal, the EC could keep the pressure on tariff reductions at the next WTO negotiation round relatively moderate (milk as a sensitive product).

AbL – Peasant Farmer Association (Arbeitsgemeinschaft bäuerliche Landwirtschaft)

The AbL is an association of farmers that promotes socially and ecologically sustainable agriculture and represents positions of farmers in legislation reforms in regard to agricultural policy.

The AbL is a union of farmers practicing both conventional and organic farming, and the majority of these farms are small and medium-sized farms.

AbL Activities include:

- **To maintain agriculture without genetically engineered crops**
- **Fair allocation of land formerly owned by the GDR in East Germany**
- **Seeds: Opposing the duty to disclose information and fees for reproduction of crops under license**
- **Networking with associations focused on environment and development policy and agriculture**

At EC level, the AbL cooperates with farmer organisations from other EC Member States in the framework of the Coordination Paysanne Européenne (CPE), at international level with the worldwide farmer movement La Via Campesina.

The AbL has published the monthly newsletter 'Unabhängige Bauernstimme' for 30 years. And since ten years, the AbL publishing agency has published the yearbook 'Der Kritische Agrarbericht'.

AbL • Arbeitsgemeinschaft bäuerliche Landwirtschaft e.V.

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Germanwatch

Since 1991, Germanwatch has promoted a social and ecological design of globalisation. Our central goals are:

- **Fair world trade and fair chances for developing countries by cutting back dumping and subsidies in world trade**
- **Compliance of multinational companies with social and ecological standards**
- **Effective and fair instruments as well as economic incentives for climate protection**
- **Ecologically and socially sound investments**

Through intensive dialogue with politicians and business people, public and media relations and issue-related campaigns, Germanwatch promotes the readiness of the German population to accept the necessary structural changes.

Reorientation in economics and ecology is necessary in the North so that people in the South can live under humane conditions and all countries of the world can develop in a socially and ecologically sound way.

You can also help to achieve these goals and become a member of Germanwatch or support us with your donation:

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