USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Voluntary Report - Public distribution

Date: 6/13/2008
GAIN Report Number: GM8028

Germany

Dairy and Products

Background on Dairy Farmers' Strike in Germany

2008

Approved by:
Bobby Richey Jr.
Germany

Prepared by:
Sabine Lieberz

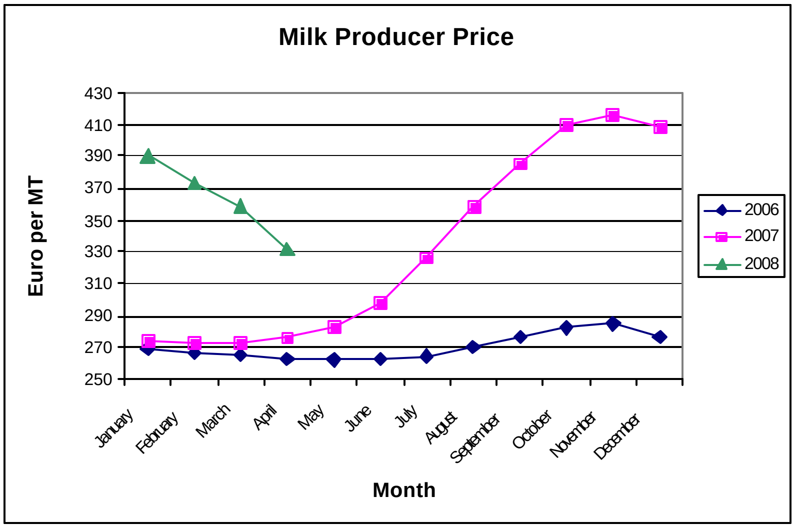
Report Highlights:
German dairy farmers began delivering milk to dairies on June 9 after major retailers announced increases in prices. This followed 10 days of farmer strikes. Some consumer groups supported higher prices in order to maintain smaller dairy farmers. The German Government has committed to hold an industry meeting in the future to discuss the issues facing the German dairy industry.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Berlin [GM1]
[GM]

Market Developments

After dairy product prices rose rapidly in 2007[1], German consumers reacted with fewer purchases and a number of food manufacturers replaced butter in their recipes. Subsequently in 2007 and in 2008, the availability of milk and dairy products in Germany and on the world market increased as farmers expanded milk production. This resulted in falling prices. In some instances, products are currently even cheaper than before the hike in 2007. The *German Central Market and Price Reporting Agency (ZMP)* reports that in May 2008, the consumer price for a 250 grams package (8.8 oz.) of butter amounted to 0.73 € compared to 0.75 € last year, before the start of the price increases. The public debate in Germany on rising food prices in recent months completely overlooked the falling prices in the dairy sector.

Beginning in mid-May 2008, major contracts between dairy processors and retailers were up for re-negotiation. With lower market prices, dairies were forced to accept steep price cuts by retailers. Dairy companies passed their price cuts on to the farmers and milk producer prices declined. The average milk producer price in May 2008 amounted to 330 €/MT (with a range from 273 €/MT to 377 €/MT depending on the region).



Note: For standardized milk with 3.7 percent fat and 3.4 percent protein.
Source: German Central Market and Price Reporting Agency (ZMP)

While this average price is still higher than a year ago, farmers claim that this price does not cover the increase of their input costs for feed and energy. In May 2008, the price for milk performance feed amounted to 243 €/MT compared to 166 €/MT in May 2007.

Farmers on Strike

As a result of the price cuts, farmers became increasingly unhappy and decided to go on strike at the end of May demanding a producer milk price of at least 430 €/MT. Instead of delivering the milk to the dairy companies, farmers fed it to their cows; used it as feedstock for biogas facilities; gave it away to consumers at the farm gate for free; or simply threw it away. Especially because of the latter, the strike was very controversial even among farmers. Reportedly, the participation was largest in southern Germany (especially Bavaria) and less in the north and east, where the average dairy farm size is considerably larger.

[1] See report GM7038: http://www.fas.usda.gov/gainfiles/200708/146292042.pdf

Retailers and dairy companies tried to re-assure consumers that they would not be affected by the strike because they could source from other parts of Germany or even from outside the country. In response to this threat, farmers blocked deliveries to the dairies. These blockades soon stopped after the German office for supervision of cartels announced that it started an investigation against the German Milk Producers' Association (BDM) one of the dairy farmers associations. The German Dairy Industry Association (MIV) reported company losses due to the strike of over €50 million.

Industry Reactions

Beginning on June 4, farmers began to see some positive responses to the situation. *Berchtesgadener Land*, a middle size dairy company in Bavaria, which accounts for 0.7 % of the German dairy output, announced that it would increase producer prices to the demanded 430 €/MT. Quickly thereafter, the large German retail changes announced price increases for milk and dairy products in order to meet the milk producers' demands.

Consumer reaction

According to an opinion poll conducted for a German newspaper, 88 percent of the consumers are willing to pay more for dairy products, provided the price increase would be passed down to the farmers. However, consumer behavior after the price increase last fall creates some doubt that these poll results will translate into actual purchases if milk prices rise.

Political Background and Implications

The strike was centered in the southern German state of Bavaria. Bavaria is the largest milk producing state in Germany but farms are smaller than in other parts of Germany. Bavaria accounts for 47 percent of the dairy farms but only 30 percent of dairy cows. The average dairy farm in Bavaria has 25 cows compared to 218 in Brandenburg and the total German average of 39 cows.

Bavaria is also the home state of the German Minister of Agriculture, Horst Seehofer, and German Farmers' Union President Gerd Sonnleitner. Bavaria will be holding state elections in September 2008. The Bavarian government and the CSU party leader are currently under pressure and could be forced to step down in case of unsatisfactory election results. It is no secret that Seehofer would like to become the chairperson of his Bavarian party, the Christian Social Union (CSU). The CSU has strong ties with farmers and Seehofer has a very close relationship with the German (and Bavarian) Farmers' Union President Gerd Sonnleitner.

Both Seehofer and Sonnleitner have opposed the end of the EU dairy quotas much longer than the state ministers of agriculture outside Bavaria. They have also opposed the recent 2 percent quota increase established by the EU. While Seehofer did not publicly support the strike he does support the farmers' demands for a "fair" milk price and is reported to have promised to work against a further quota increase in Brussels. He has also called for a milk German milk summit and the creation of an EU "milk fund" to support dairy farms in disadvantaged areas.

Outlook

It is unclear how long retailers will be willing to pay higher prices for domestic milk, if cheaper product is available from elsewhere in the EU. It is possible that the retailers will temporarily increase the prices to calm the heated debate. However, in the long run, retailers will not pay more than what the situation on the EU and world market warrants.

The only policy option to induce higher prices would be to reduce the milk amount on the total EU market. This however, is an unrealistic goal, given the fact that the European Commission seeks to gradually increase the quota in preparation of the expiration of the dairy quota regime in 2015.

Key Statistics on the German Dairy Sector
Dairy is the most important sector of German agriculture. The production value of milk at producer level amounted to €7.9 billion (U.S. $10.8 billion) in 2006 and represented 21 percent of total German agricultural production.

In 2007, German milk farmers delivered 27.4 million MT (approximately 7.2 billion gallons) of milk to their dairy processors at an average price of €334.60[2] per MT. The German production of dairy products is summarized in the table below.

Table: German Production of Dairy Products in 1000 MT

	2001	2002	2003	2004	2005	2006	2007
Deliveries to dairies	27,170	27,057	27,563	27,383	27,663	27,132	27,438
Fluid milk	5,485	5,524	5,821	5,798	5,815	5,923	5,809
Cheese	1,177	1,174	1,206	1,258	1,331	1,398	1,431
Butter	420	430	452	444	450	437	443
NFDM	294	311	310	229	239	198	239
WMP	167	154	154	162	154	145	157

Note: Definitions for cheese, NFDM, and WMP concurs with reporting instructions for annual reports. Therefore, Cheese production does not include fresh cheeses; WMP also includes cream powder and semi-skimmed milk powder

Source: FAS Berlin based on information from the German Federal Office of Statistics

Related reports:

Report number	Title	Date released
GM7050	German Quota Overshoot Further Reduced in MY 2006/07 http://www.fas.usda.gov/gainfiles/200711/146292980.pdf	11/14/2007
GM7038	Background on Higher Prices For Dairy Products in Germany http://www.fas.usda.gov/gainfiles/200708/146292042.pdf	08/14/2007
E48036	EU agrees on two percent milk production quota expansion for 2008/09 http://www.fas.usda.gov/gainfiles/200804/146294153.pdf	03/31/2008
E47093	Dairy and Products Annual Report http://www.fas.usda.gov/gainfiles/200710/146292773.pdf	10/19/2007

[2] For standardized milk with 3.7 percent fat and 3.4 percent protein.