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The French Milk Price Situation - A Crisis

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Agriculture in the Economy

Trip Report

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Report Highlights:

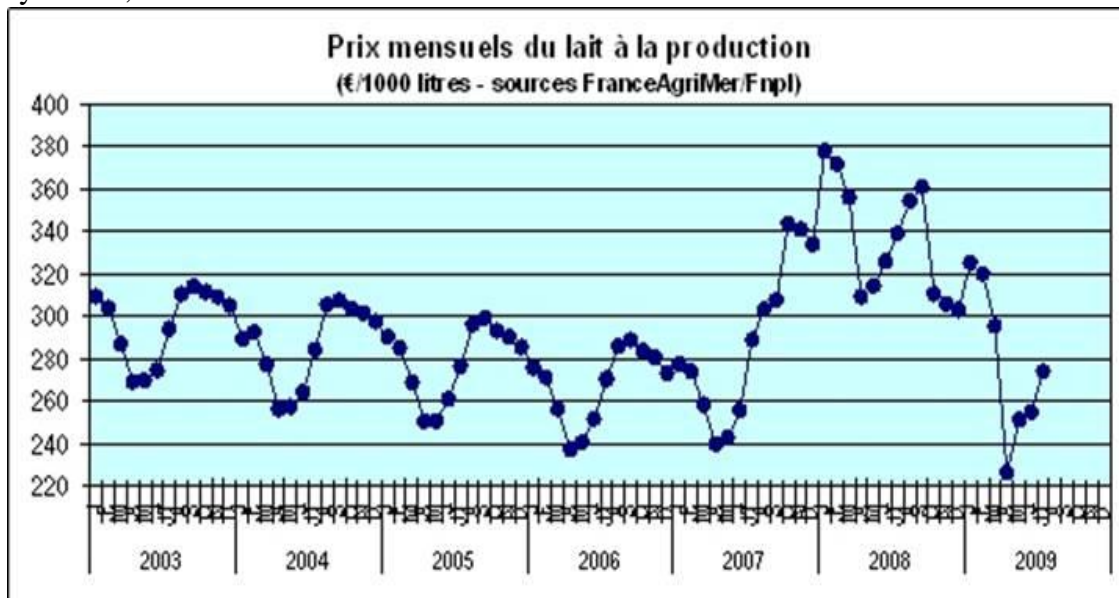
The year 2009, has been a turbulent year for the European and French dairy industries, due to historically low prices, following record high prices in 2007. Dairy farmers are significantly affected, because the safety net they benefited from is disappearing gradually. Farmers are demanding regulation of production through flexible management of quotas to ensure a fair price. Since 2008, a number of French dairy farmers have demonstrated their frustrations by dumping milk onto fields and handing out milk to passers-by on the streets rather than selling their products to processors. These protests were successful in getting the attention of the government. On October 19, the EU Council of Ministers of Agriculture announced the creation of a "dairy fund", to assist dairy farmers. The monies would be distributed nationally in proportion to milk production. Reportedly, the funds were contributed to put an end to the public demonstrations.

General Information:

Market and Policy

The year 2009, has been a turbulent year for the European (EU) and French dairy industries. The industry has faced historically low prices, following record high prices in 2007. In 2008, international prices for nonfat dry milk collapsed.

The graph below illustrates fluctuations of French producer prices for milk in Euros per 1,000 liters, by month, since 2003:



Source: French Ministry of Agriculture Board for Dairy, Livestock, Poultry, Crops and Seafood (FranceAgriMer), French Milk Producers Federation (FNPL)

French and EU dairy farmers are significantly affected by these low prices, mainly because the safety net they benefited from is disappearing gradually. The Health Check of the Common Agricultural Policy (CAP) is preparing the European dairy sector for a “soft-landing” through a gradual increase in the milk production quota, while public stocks of butter and skimmed milk powder were at zero in 2008, and export subsidies have been declining over the past years. Due to the deterioration of the European dairy sector situation, the European Commission reopened the Private Storage Aid scheme for butter, reopened intervention for butter and skimmed milk powder, and re-installed export subsidies for a wide range of dairy products in 2009.

French Dairy Farmers Protest

The French National Federation of Farmers’ Union, the principal French farm union, loosely comparable to the American Farm Bureau, the Confederation Paysanne, a leftist anti-free trade union, and the Coordination Rurale have all expressed support for maintaining strict milk quotas and the producer’s right to manage their production. It is their belief that volume regulated production,

set to consumer demand; would ensure fair compensation for producers.

Farmers are demanding regulation of production through flexible management of quotas to ensure a fair price. Since 2008, a number of French dairy farmers have demonstrated their frustrations by dumping milk onto fields and handing out milk to passers-by on the streets rather than selling their products to processors. These protests were successful in getting the attention of the government.

French Minister of Agriculture's Reaction

Since September, French Minister of Agriculture Bruno Le Maire has advocated new measures to reduce the impact of world price volatility on the European dairy industry, including new EU regulation measures without questioning the phasing out of dairy quotas. Currently, the EU dairy policy consists of milk production/marketing quotas, price support (intervention purchases of butter and nonfat dry milk), subsidized exports of dairy products, and consumer subsidies for some products. Under a French-German initiative, the majority of EU member states support the idea of creating new regulation measures in the EU dairy policy to protect farmers from the high volatility of world market prices. Also, Le Maire considered the creation of a European futures market for butter and milk powders, and the consolidation of farmers groups, to be stronger in their price negotiations with dairy processors.

On October 1, the French minister of agriculture met with representatives of the dairy and processing industries and farmers unions. They all agreed on the need to install market regulation both at the EU and French levels, to replace the current production quota system in favor of a pricing system, reduce price volatility, and stabilize dairy farmers' income based on a contract with producers that would identify production and prices. In addition, a working group was announced to begin October 7 on contractual conditions between dairy farmers and processors.

As requested by France, on October 5, 2009, the Swedish Presidency of the EU convened an extraordinary informal meeting of Agriculture Ministers to discuss the dairy situation. The EU Agriculture Commissioner stated that it was technically impossible to take any policy decision at this meeting, as it was not a regular meeting. However, French dairy farmers were disappointed that the current dairy CAP system was not questioned, and actively participated in another round of demonstrations in Brussels.

French Agricultural Minister Le Maire welcomed the announcement at the October 5 meeting of the creation of an "expert working group" (comprised of officials from the Member States and the Commission), to look at the long-term future of the dairy sector and make its findings public by the end of June 2010. He favored the fact that the mandate of this group corresponded "word by word" to the French-German proposal.

France's Agricultural Minister Trip to the United States

After the meeting in Brussels, Minister Le Maire reiterated he favored the creation of a European futures market for dairy products. He visited the United States on October 8 and 9, 2009, to learn about the mechanisms that regulate the U.S. dairy market and to understand measures being taken to

address the crisis for U.S. dairy farmers. Minister Le Maire met with Agriculture Secretary Vilsack, Agriculture Committee Chairman, the U.S. Trade Representative, and the farm of the vice president of the Maryland Farm Bureau. Reports indicate that the European Commission is currently exploring the feasibility of such futures market in Europe.

Reportedly, Minister Le Maire was particularly interested in U.S. Dairy Product Price Support Program (DPPSP) and the Supplemental Nutrition Assistance Program. Under the DPPSP, USDA's Commodity Credit Corporation purchases from dairy manufacturers nonfat dairy, cheddar cheese, and butter. In a decision announced July 31, 2009, by Agriculture Secretary Vilsack, USDA temporarily increased purchase prices for cheese and nonfat dry milk in order to support struggling dairy farmers by increasing the amount paid for dairy products through DPPSP. The Supplemental Nutrition Assistance Program (SNAP) is the new name of the Food Stamp Program. SNAP provides food assistance and nutrition education to assist participants as they move to a healthier lifestyle and self-sufficiency. It is the United States largest domestic nutrition assistance program.

Demonstrations Impacting Policy

The public demonstrations succeeded in getting the attention of the government. On October 12, Minister Le Maire highlighted details of his visit to the United States at a ministerial meeting Vienna. At the October 19 Agricultural Council, the Member States who support the idea of creating new regulation measures to protect farmers requested the EU Commission to take the following immediate measures to stabilize the market: 1) authorize public and private storage, 2) set-out a policy for counter-cyclical destocking, 3) reinforce the distribution of dairy products in schools through an increase of European subsidies, 4) consumer promotion (country of origin labeling), 5) support the export of targeted products, and 5) reactive the skimmed milk powder subsidies. Secondly, the ministers requested changing the single common market organization to authorize the EU Commission to take emergency measures in the dairy sector, and to provide dairy producers with means to organize to balanced contracts between producers, processors, and retailers. Finally, three-hundred million Euros was requested to allow Member States to implement the measures.

The EU Council of Ministers of Agriculture announced the creation of a "dairy fund" on October 19, to assist dairy farmers. The monies would be distributed nationally in proportion to milk production. France is to receive 17 percent of the funding. Reportedly, the EU Agriculture Commissioner stated that the funds were contributed to put an end to the public demonstrations, and none of the ministers present at the meeting had supported the idea of a return to production quotas. Some agricultural unions have expressed displeasure. In spite of the funding, they are calling for market regulation at the EU and French levels.