Objectives and results of the phasing out of milk quotas with focus on diary farmers

Competent Farmer Workshop
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Swiss milk market

Facts and figures 2007

- milk production: 3.4 million tonnes / 2016: 3.45
- milk producers: 27,000 / 21´000
- Ø delivery: 126,000 kg milk/farm / 154´000

- dairy milk: 2.4 million tonnes / 2.339
  - 4 big processing companies / all still there, one grew large since
  - Ø raw milk price 08: 0.51 EUR/kg / 0,51 @ exchange rate of 1.10 instead of 1.60 → 0.39EUR/kg
Agricultural policy reform

A step-by-step approach

Step 1
- Decoupling of support
- Price reductions
- Incentives for specific ecological performances
  (e.g. biodiversity)
- Tarification of market access instruments (WTO)

Focus on the environment

Step 2
- Liberalisation of domestic markets
  ⇒ Competitiveness
  ⇒ Abolition of market intervention systems
- Cross-compliance for all direct payments

Focus on market orientation

Step 3
- Further improvements in the policy framework to increase competitiveness and to strengthen rural areas
- Social accompanying measures
- Focus on market orientation, rural development and social sustainability

The milk market: price evolution

Evolution of Swiss milk price

Year
CHF/kg
Milk price

Source: OECD
Policy measures and instruments

The milk market today

Market subsidies

Milk quota system

Protection against imports
Policy measures and instruments

The milk market to come..

- Direct payments
- Market subsidies
- Milk quota system
- Protection against imports
Milk policy reform: Abolition of producer milk quotas

Producer milk quota system

<table>
<thead>
<tr>
<th>Year</th>
<th>State-supervised transition period. Contractual obligation for milk producers with no official milk quota</th>
<th>Free market, but with contractual obligation for milk producers</th>
<th>Free market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>63% Milk producers with no official milk quota</td>
<td>82%</td>
<td>100%</td>
</tr>
<tr>
<td>2006</td>
<td>82%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>90%</td>
<td>100%</td>
<td></td>
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<td>2008</td>
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<td>2009</td>
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<td>2014</td>
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<td>2015</td>
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<tr>
<td>2016</td>
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</tbody>
</table>
Milk policy reform: Transition period
1 May 2006 – 30 April 2009

Early withdrawal of producer quotas under these circumstances:
- member of a producer organisation or a producer processor organisation
- regulation of quantity in the organisation
- sanctions
Milk policy reform: Conclusions of the transition period, 1 May 2006 – 30 April 2009

- better market orientation compared with „quota-period“
- too many organisations
- experience with supply/demand management
- allocation of additional milk quantities by the Federal Office for Agriculture; instrument to adjust supply to market needs, mainly cheese export projects benefited from additional milk quantities
Milk policy instruments (under public law) from 1 May 2009 on (I)

- Allowance for milk processed into cheese
- Financial support for sales promotion activities
- Obligation for milk producers to conclude a contract with buyers
  - for a period of at least one year
  - arrange price and quantity – in advance (2017)
- Contract data are collected and published
Milk policy instruments (under public law) from 1 May 2009 on (II)

- Extension of self-help measures that meet specific requirements to non-members (of an organisation)
- Market monitoring: monthly published reports on producer and consumer prices of milk and milk products / calculation of margins
The Inter-branch Organisation Milk

- founded in June 2009
- vertical inter-branch organisation
  - producer organisations, milk processing companies, cheese dairies, milk traders and retailers
  - 95% of milk production/processing milk
- Objectives:
  - to enhance transparency
  - to obtain secure contractual relations
  - to adjust milk supply to market needs
  - to support profitability
  - to determine quality measures
Conclusions and challenges (I)

- Premature withdrawal of producer quotas (2006-2009) was intended to ensure a “soft landing”. In any case, the dairy sector was not well prepared.

- When the pressure to solve market problems was high enough, the inter-branch organisation milk was founded.

- The inter-branch organisation milk has decided on some self-help measures for dairy milk and these measures are already applied (under private law).

- Decision of the Federal Council in February 2010 (extension to non members until 31 December 2010).
Conclusions and challenges (II)

- Federal Council cannot extend all self-help measures, for example export duty of commodities, measures to solve structural problem or anti-competitive practices.

- The impact of a Federal council decision:
  - necessary for the transition; market effect low
  - psychological effect may be high

- The application of extended self-help measure to non members remains a task of the organisation.

- First evaluation of the milk market with instruments under public and private law cannot be made before 2011.
Swiss milk market Supply and demand development

- Since the abolition of milk quotas, milk production has stabilised at 3.4-3.5 million tons.
- The conventional milk quantity increased from around 3 to about 3.25 million tons (+ 7.8 %), the organic milk quantity from 0.186 to 0.223 (+ 19 %)
- On average, 250 kg of whole milk equivalent per capita have been consumed in Switzerland over the last seven years
- The per capita consumption of cheese in Switzerland rose from 19 to 21.5 kilograms between 2000 and 2015. This corresponds to a growth of 13 percent or approx. 165 grams per person and year (+ 0.75 % / year).
- In contrast to cheese consumption, the per capita demand for drinking milk has fallen by 26.9 kilograms (-31.3%) since 2000, which corresponds to an annual decline of around 1.8 kilograms (approx. -2% / year).

Quelle: TSM 2016

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### Development of Segments 2004 - 2015

#### Tabelle 2.9: Entwicklung der Milchmenge ausgewählter Milchsegmente 2004–2015

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total CH-Milch</td>
<td>3.187</td>
<td>100 %</td>
<td>3.457</td>
<td>100.0 %</td>
<td>+ 8.5 %</td>
</tr>
<tr>
<td>Molkereimilch</td>
<td>2.031</td>
<td>63.7 %</td>
<td>2.339</td>
<td>67.7 %</td>
<td>+ 15.2 %</td>
</tr>
<tr>
<td>Silofreie Milch (inkl. Bio)</td>
<td>1.156</td>
<td>36.2 %</td>
<td>1.118</td>
<td>32.3 %</td>
<td>– 3.3 %</td>
</tr>
<tr>
<td>Konventionelle Milch</td>
<td>3.001</td>
<td>94.2 %</td>
<td>3.234</td>
<td>93.5 %</td>
<td>+ 7.8 %</td>
</tr>
<tr>
<td>Biologische Milch</td>
<td>0.186</td>
<td>5.8 %</td>
<td>0.223</td>
<td>6.5 %</td>
<td>+ 19.4 %</td>
</tr>
<tr>
<td>Emmentaler-Milch</td>
<td>0.412</td>
<td>12.9 %</td>
<td>0.229</td>
<td>6.6 %</td>
<td>– 44.5 %</td>
</tr>
<tr>
<td>Gruyère-Milch</td>
<td>0.295</td>
<td>9.3 %</td>
<td>0.322</td>
<td>9.3 %</td>
<td>+ 5.7 %</td>
</tr>
<tr>
<td>Appenzeller-Milch</td>
<td>0.089</td>
<td>2.8 %</td>
<td>0.090</td>
<td>2.6 %</td>
<td>+ 0.8 %</td>
</tr>
</tbody>
</table>

Quelle: TSM 2016
Global dairy market
Milk price development in Switzerland & EU 2004-2016 in CHF
CH milk price, EU milk price, EU milk price at constant exchange rate, difference CH-EU

- Parallel development with declining trend
- Historical lows 2015/16
- Difference from CH price to EU price is on average around 23.5 CHF / 100 kg (green line).
- For 2 years now, the difference between the CH and EU prices has averaged 26-29 CHF/100kg.
- At an exchange rate of 1.63, the EU price would be just under 50 CHF/100kg today (grey line).
- The difference between the actual EU price and the EU price at the exchange rate of 1.63 is between 15-19 CHF/100kg (purple line).
- Delayed effects: CH price takes up EU development with a delay (price often drops later, also recovers later)
The Swiss milk price is influenced by...

- Developments in the EU: supply and demand
  - Current EU price
  - EU price development over the past 3 months (the EU milk price is itself influenced by its own price 3 months ago)
- From the exchange rate - rising € has a positive effect
- Political decisions such as the withdrawal of EU quotas (indirectly via supply development)
- Sale of dairy products at high value added

A unilateral reduction in quantity produced is not increasing milk price in a semi open market

In the future, stronger fluctuations (milk cycle) in the milk market must be assumed, which leads to higher requirements in liquidity and risk management!
Cheese free trade with the EU: import & export prices

• Since 2006, exports have increased from 50,000 tons to over 67,000 tons (+ 17,000 tons). However, import volumes increased more sharply from 33,000 to 55,000 (+ 22,000)

• In terms of value, the trade balance for cheese remains constant at an average of around CHF 200 million.

Quelle: TSM / EZV 2016

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Milk production in Switzerland: Differentiation

- Since the abolition of milk quotas, there has been a growing price difference between "generic" and "differentiated" milk.
- Price range (excluding B and C milk) has increased from approx. CHF 10 / 100 kg to approx. CHF 20 / 100 kg
Conclusions (I)

• The CH milk price is strongly influenced by exogenous factors
  • EU milk price, exchange rate, consumer trends, climate, technological change
  • Expansion of domestic production volume without sales in the A-segment puts pressure on prices.
  • General CH quantity control has no effect on the EU market

• Increasing price volatility forces risk management

• Demand development - changes that offer opportunities
  • Growing population numbers and changing consumer preferences
  • Rising cheese consumption
  • Trend towards sustainable, close-to-nature and regional

• Take trade as an opportunity → liberalisation of the cheese market
  • Decline due to reduction of state intervention could be more than compensated for
Conclusions (II)

- Natural conditions and credible image
  - Traditional family businesses
  - World leader in animal welfare
  - The majority of cows in Switzerland graze (80% ROW OUT)
  - Grassland-based feeding: worldwide comparatively low concentrated feed consumption
  - High quality handcrafted (raw milk) cheese production

- Operational cost awareness and cost management
  - Growth does not automatically lead to higher returns
  - Customized strategies: differentiation, low-input systems, etc.

- Agricultural policy framework conditions. From state intervention to personal responsibility
  - Decrease in product-related support, increasing direct payments per hectare
  - The state continues to play an important role in the dairy market