Phasing out of milk quota: The role of Swissmilk in the process

3th october 2017, CH-Tänikon

Stephan Hagenbuch, Swiss Milk Producer's Association
Agenda

♦ Which were the main challenges for dairy farmers to manage the phasing out?
♦ How did Swissmilk support the farmers in the adaptation process?
♦ What were the conclusions of this process?

♦ Discussions?

♦ More: www.swissmilk.ch
Switzerland’s Dairy Market
Switzerland’s Dairy Market 2016

- 575,000 Dairy cows
- 21,000 Milk producers
- Production: 4.0 million t of milk
- Processing: 3.4 million t of milk
- Feeding milk: 0.51 million t
- Household milk: 0.04 million t
Farmers milk price: Review (SMP)

Dairy farmers milk price 1905 bis 2013

- Until 1913: liberal market situation.
- 1914-18: World War I
- 1917: lack of food → political measures (price control)
- 1922: Turn back to liberal market, milk prices decrease very strongly.
- 1922: Swiss dairy farmers union takes first measures (1923: “golden 20es”, increase of exports)
- 1929: World economic crisis, decrease in cheese exports, overproduction
- 1930: Guaranteed milk price by government
- 1933-36: Dairy quota system
- 1938: Dairy quota system
- 1939: World War II: Guaranteed prices
- 1954: Policy measures in agricultural law: guaranteed prices
- 1999: Abolition of price guarantee
- 2000: On-going abolition of market subsidies
- 2007: International price rallye
- 2007: International price rallye
- 2009: Abolition of dairy quota system
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Border protection and market access (Switzerland – EU)

- Cheese agreement EU-CH (bilateral agreement I):
  - Reciprocal and gradually eliminate customs duties for cheese (incl. cottage cheese):
    - Fully liberalised: july 2007
    - We depend now from EU-border protection for cheese
  - Tariff quota for cream and yoghurt (2‘000 t)

- Agreement for processed agricultural products EU-CH (bilateral agreement II / „chocolate law“):
  - Net price compensation
  - New access for yoghurt, „semi-butter“, milk beverages etc.

- No change in border protection for milk, butter, SMP, WMP
Trade Agreements and Agricultural trade relations

<-Importation Exportation->

Bilateral Agreement ? +

Agricultural FTA ? +

„White line“ Milk FTA ??

Surplus

Other FTA (for ex. China etc.)

FTA‘s

Dauha Rounde

Competent Farmer Project Meeting

october 4, 2017
Roadmap and targets
Roadmap to Quota Abolishment

Milk producers’ decision

Policy discussion by SMP Board

Producers’ decision within their organisations as to future organisational form

National concept for premature abolishment established

Formation of producers’ organisations (POs), approval of schemes, etc.

Petitions to FOAG as to premature abolishment of milk quotas (MQ)

First operative and functional POs

POs adopt quantitative management under private law as of 1/5/06.

Key data

Adoption of ordinance on milk quota abolishment

Approval of POs by FOAG

Abolishment of milk quotas for organisations with own milk quantity management (POs, BOs, PMOs)

Final abolishment of milk quotas. Requirements regarding form of milk purchase contracts as of 2009.

National concept for premature abolishment established

May 2004

Jan 2005

May 2005

Jan 2006

May 2006

Jan 2007

May 2007

Jan 2008

May 2008

Jan 2009

May 2009
Targets in 2005 (I):
Market concentration

- **Production**
  - 32,000 milk producers
  - 2,800 cooperatives
  - 750 cheese dairies (~70% MS)
  - 5 processors (~70% MS)

- **Collecting**
  - 2 - 8 pools
  - ~2,000 milk producers
  - ~2 cheese dairies (~80% MS)

- **Processing**
  - 2 processors

- **Retail**
  - 2 retailers
  - 730,000 (~70% market share)

- **Consumption**
  - 7,700,000 (~80% market share)

**Situation 2005**

**Future 201?**

October 4, 2017

Competent Farmer Project Meeting
Targets in 2005 (II): Segmentation

Milk price (Swiss)

Normal-market

EU

Market segment with high added value:
- Retailers
- Protected domestic market
- Cheese
- Processed products export ("chocolate law")

Market segment with low added value:
- Ousting imports
- Regulation
- Risik projects

% of basis quantity

90 - 95

100

107
Targets in 2005 (III):
Market power / One delegation

Delegates for negotiations

MSO lead delegation

MSO

Negociations

Dairy A

MSO

MSO

MSO

MSO
Targets in 2005 (IV):
Added value / Marketing
Farmer’s advisory vote: July 08

- Coordinated price negotiations: 84% yes, 16% no
- Pooling supplies: 81% yes, 19% no
- Quantity control: 82% yes, 18% no
- Different rates of contributions: 78% yes, 22% no

Source: SMP, advisory vote 2008
Realitiy
The way to „resolve“ conflicts........is not easy: Why?

- Permanent discussions about:
  - **Quantity** before price
  - **Price** before quantity
  - **Quantity and** price
  - **Extra quantities: „gold rush feeling“**

Illustrationen: Burkhard Pfeifroth
Different strategies and interests!
(producers, processors, policy)

mountains/plain
additional milk?
quantity/price?
policy/market

big/small
organisations
“Gold rush feeling”
white/yellow line
„A cemetery of good ideas“: A roadmap for a very long „milkyway“!

♦ **2003**: Policy decision phasing out of milk quota

♦ **2004**: Creation of *Milk Interprofession I* → 2008 †

♦ **2005**: Formation of *new producer‘s organisations* for a premature abolition

♦ **2007**: Discussion for a common *strategy*

♦ **2008**: National *milkpool* → †

♦ **2008**: Creation of *Milk Interprofession II* → †

♦ **2009**: Creation of Swiss *Milk Interprofession III*
## Market concentration (2016)

### Milk quantities in millions of kilograms according to marketing and negotiating organisations 2016

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Quantity (mio kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genossenschaft Zentralschweizer Milchproduzenten SMP</td>
<td>400</td>
</tr>
<tr>
<td>Genossenschaft moch (since 1.1.2017)</td>
<td>311</td>
</tr>
<tr>
<td>Aaralpeli AG</td>
<td>254</td>
</tr>
<tr>
<td>Nordostmilch AG (since 1.1.2017 G. moch)</td>
<td>228</td>
</tr>
<tr>
<td>PROLAIT fédération laitière</td>
<td>219</td>
</tr>
<tr>
<td>Fédération des sociétés fribourgeoises de laiterie (FSFL)</td>
<td>179</td>
</tr>
<tr>
<td>OPU APL Cremo S.A.</td>
<td>175</td>
</tr>
<tr>
<td>Arnold Produktion AG</td>
<td>162</td>
</tr>
<tr>
<td>PMO MMMO (Emmi)</td>
<td>145</td>
</tr>
<tr>
<td>MIBA Genossenschaft (since 1.7.2017 G. moch)</td>
<td>144</td>
</tr>
<tr>
<td>PMO Berner Emmi Milchproduzenten-Organisation (BEMO)</td>
<td>119</td>
</tr>
<tr>
<td>PMO Züger Förder</td>
<td>100</td>
</tr>
<tr>
<td>ZaNoOs (Emmi)</td>
<td>78</td>
</tr>
<tr>
<td>OPU APLGON-Neuchâtel-Seeland</td>
<td>45</td>
</tr>
<tr>
<td>Biomilchpool GmbH</td>
<td>43</td>
</tr>
<tr>
<td>Fédération Laitière Valaisanne PMK incl. OPU APLCV</td>
<td>40</td>
</tr>
<tr>
<td>Molkerei Biedermann AG</td>
<td>40</td>
</tr>
<tr>
<td>Thur Milch Ring AG</td>
<td>40</td>
</tr>
<tr>
<td>PMO Bodensee Milch</td>
<td>34</td>
</tr>
<tr>
<td>Schweizer Milchhaus AG</td>
<td>25</td>
</tr>
<tr>
<td>Strahl Käse AG</td>
<td>21</td>
</tr>
<tr>
<td>OPU APL MILCO</td>
<td>19</td>
</tr>
<tr>
<td>OPU LRG</td>
<td>18</td>
</tr>
<tr>
<td>OPU APL ELBA</td>
<td>17</td>
</tr>
<tr>
<td>OPU Chasseral</td>
<td>16</td>
</tr>
<tr>
<td>Federazione Ticinese Produttori Latte FTPL</td>
<td>14</td>
</tr>
<tr>
<td>OPU APL NESTLE</td>
<td>13</td>
</tr>
<tr>
<td>PMO Napfbergland</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Swiss Milk Producers SMP
Interprofession Swiss Milk III, ISM

Founded: 29th June 2009 as a privat platform

Market-issue tools:

♦ Segmentation-system (A-,B-,C-Milk)
♦ Common contracts for A-,B-Milk, 1st and 2nd level
♦ Recommended price index for A-,B-,C-Milk
♦ Intervention (self-help measures) †
♦ Milk-Quality issues (safeguard CH standard)
♦ Information, transparency

About 95 % of the „Swiss Milk“ is member to ISM „Branch platform milk“: „in the same boat“
Interprofession Swiss Milk III, ISM (II)

Additional **tools** and remarks:

- Interprofession can ask the government for a declaration of general application of a collective agreement (-> extension of collective agreements) to Non-members of ISM
- The tools must be easy and transparent

But no prices and no quantities can be fixed either by the Swiss government or by the extension law!

There is no conflict with the anti-trust law in Switzerland
**Interprofession Swiss Milk III: How to decide?**

<table>
<thead>
<tr>
<th>Member organisation: processors (19) / retailers (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 members of the Board</td>
</tr>
<tr>
<td>5 processors</td>
</tr>
<tr>
<td>3 cheese makers</td>
</tr>
<tr>
<td>2 retailers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Member organisation: milk producers (32)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 members of the Board</td>
</tr>
<tr>
<td>3 Swiss Milk Producer‘s Association (since 2012)</td>
</tr>
<tr>
<td>7 pooling organisations</td>
</tr>
</tbody>
</table>

Decision by acceptance of $\geq \frac{3}{4}$ votes of each group
Interprofession Swiss Milk III: Recommended milk price index (A-Milk)

Index und Richtpreise BO Milch

- Indexpreis (BLW)
- A-Richtpreis (BO Milch)
- B-Richtpreis (BO Milch)
- LTO+ Preis (BO Milch)

Graph showing the price indices from July 2008 to November 2017.
Market:

„Homo oeconomicus Lactus Helveticus“ 2005

Milk price

Accumulated demand

supply

Milk quantity
Abolishment of milk quotas: Market equilibrium ...where is it? \[ \eta_{m/p} >> 1 \]
Market: Quantity and Milk Price

Industrial Milch: Quantity and Price

- Mio. tons
- Cents per kg

Graph showing the quantity of industrial milk and the milk price FOAG, 12 months average from January 2006 to January 2016.
Market: Butter: stock and exports

Entwicklung der Butterlager und Exporte

Tonnen

Butterexporte kumuliert
Butterlager
Rollender 12-Monats-Durchschnitt

© Grafik: SMP • PSL | Quelle: BO Butter
Conclusions
Swiss Conclusions in general (I)

♦ A lot of time to study „new“ solutions is no guarantee for success; it can be the contrary!
♦ The phasing out of Milk Quota in different steps – ordered by regulations – was a mistake!
♦ „Good market signals“ at the „bad“ moment can have a negative influence
♦ Market focus becomes more important to the dairy value chain
♦ More volatility is a fact
♦ Education & consulting are important
♦ A lot of farmers realize the situation, when they have the milk payment on the table
Conclusions for the Dairy Economy (II)

◊ Partners on the business line have to co-operate for sustainable solutions:
  • vertical business line becomes more important
  • stability is important for producers, processors and retailers
  • Milk producers are in fact quantity adjuster and price takers
  • Retailers and processors do not „like“ the pressure from the „road“

◊ Milk market without quota requires new structures

◊ Without solutions between the partners on the value chain the „problems“ come back to the policy
Thank you very much for your attention – time for discussions?

Swiss Dairy Economy
in figures

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