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# **Liberal markets and vertical integration**

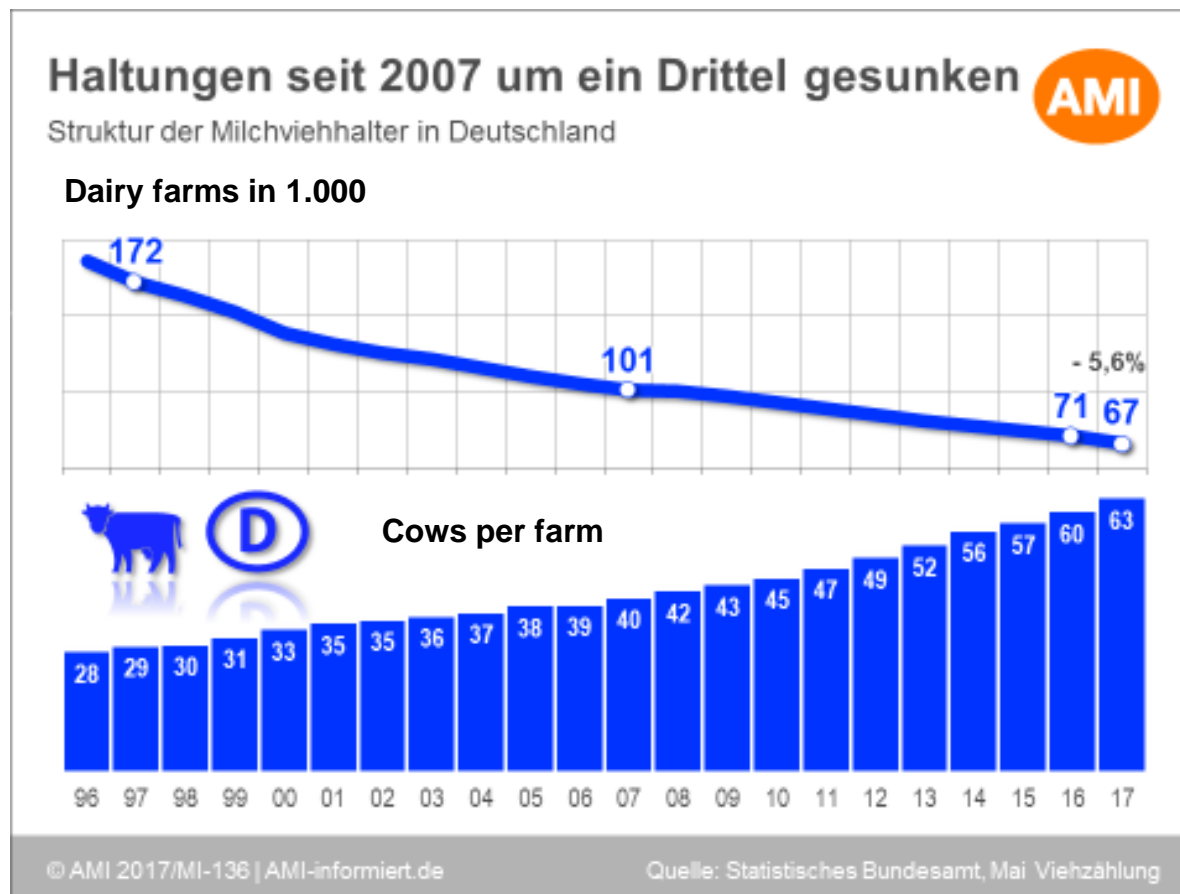
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## **How to protect the interests of milk producers**

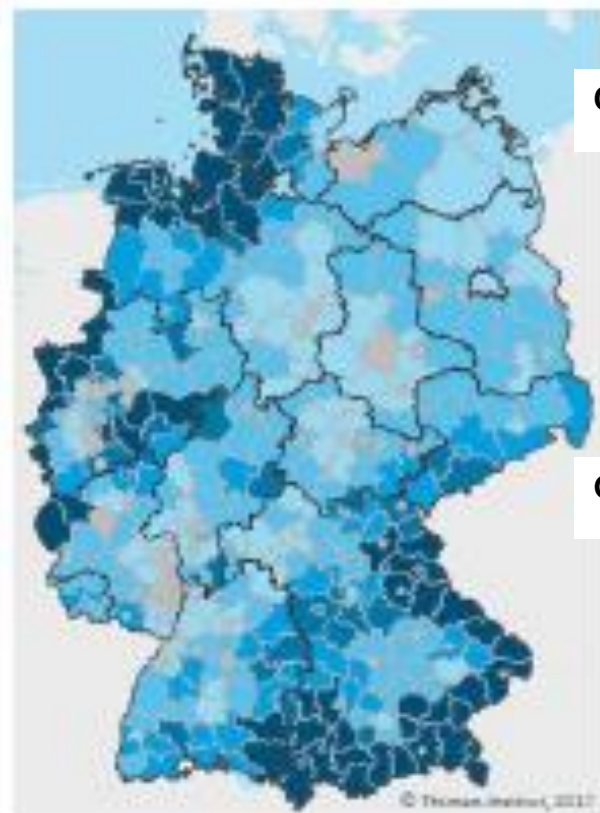
**15th November 2018, Lake Velence**

**Ludwig Börger**  
Head of Unit Milk  
Managing Director  
Managing Director

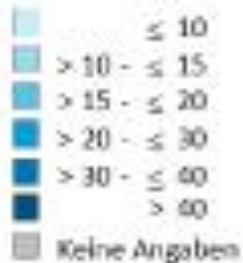
**Deutscher Bauernverband - German Farmers' Association**  
QM-Milch  
VDM - IDF Germany



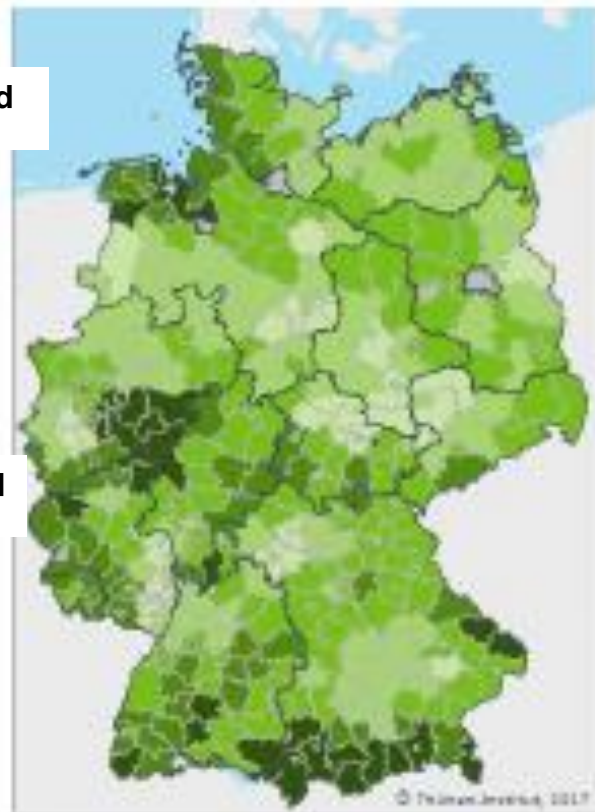
- in 2018: 64.000 dairy farmers – medium herd size: 65 cows
- structural change at a level of - 4,5 % year per year



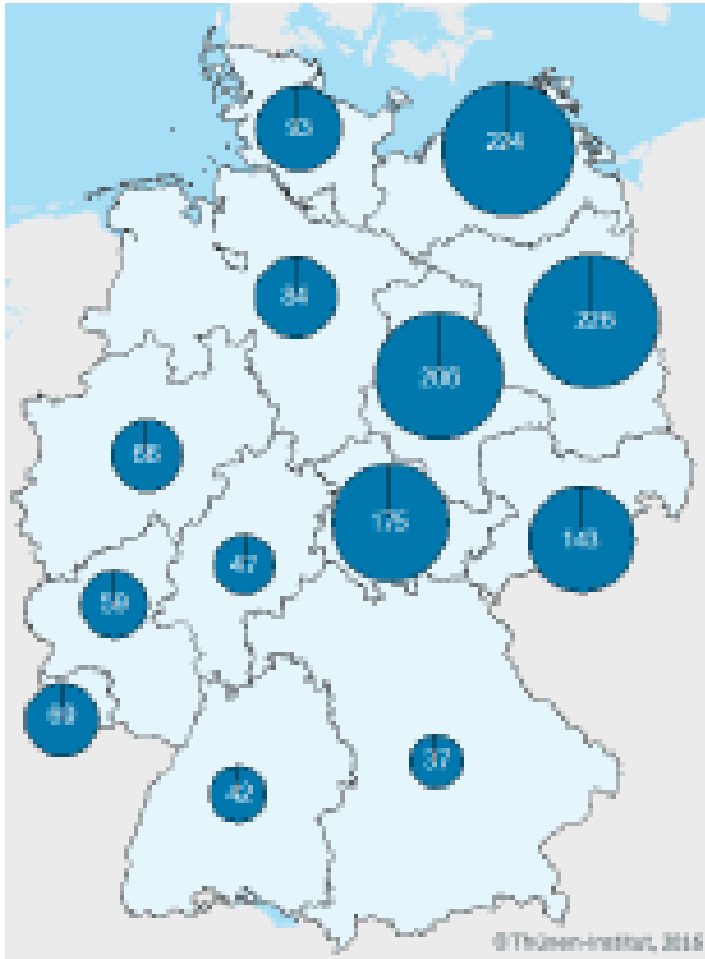
Cows per 100 ha arable land



Grassland: % of arable land



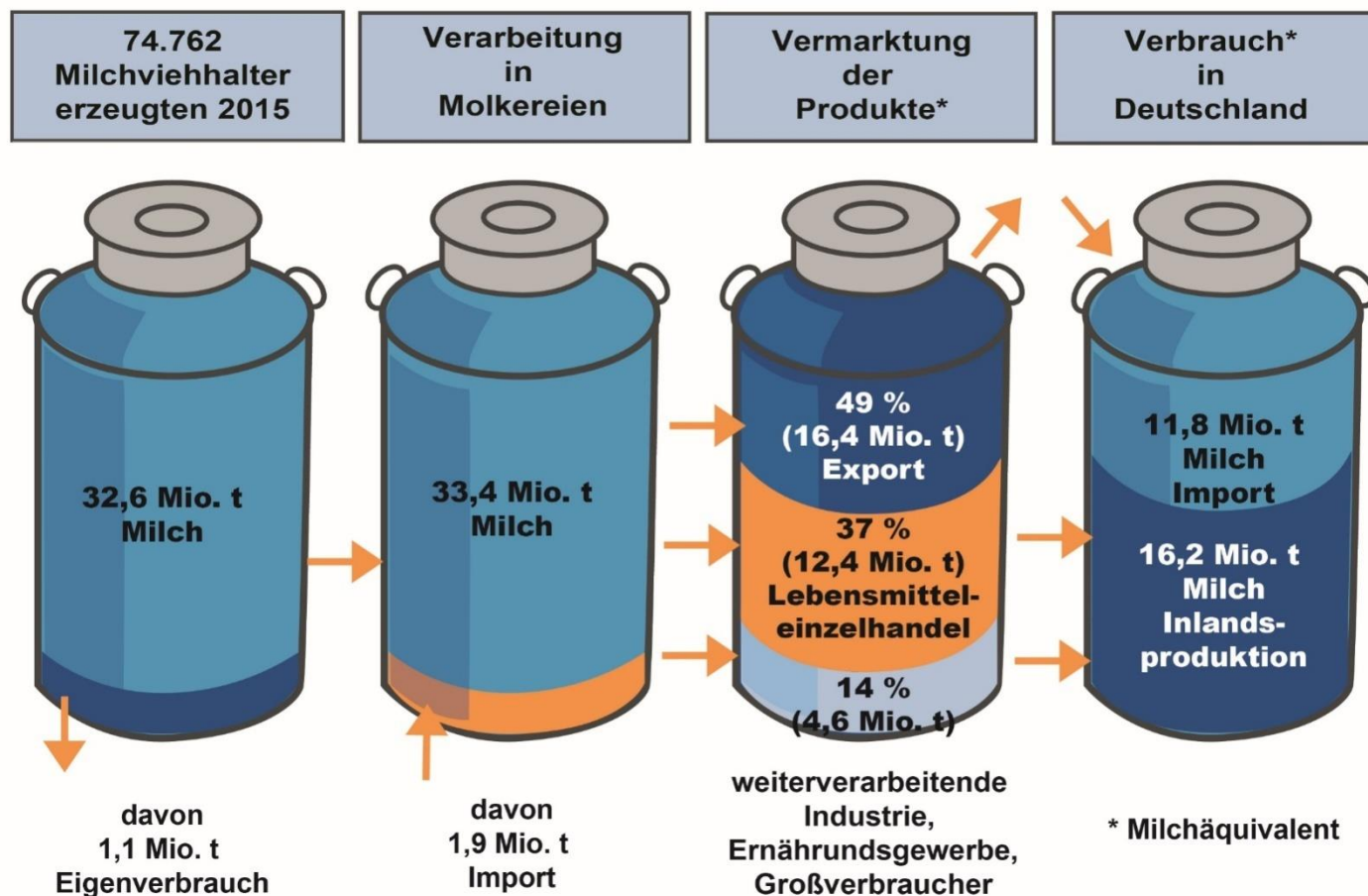
- Milk production is concentrated in Northwest and Southeast



**Medium herd size in different states**

- **Structures of dairy farms are very different**

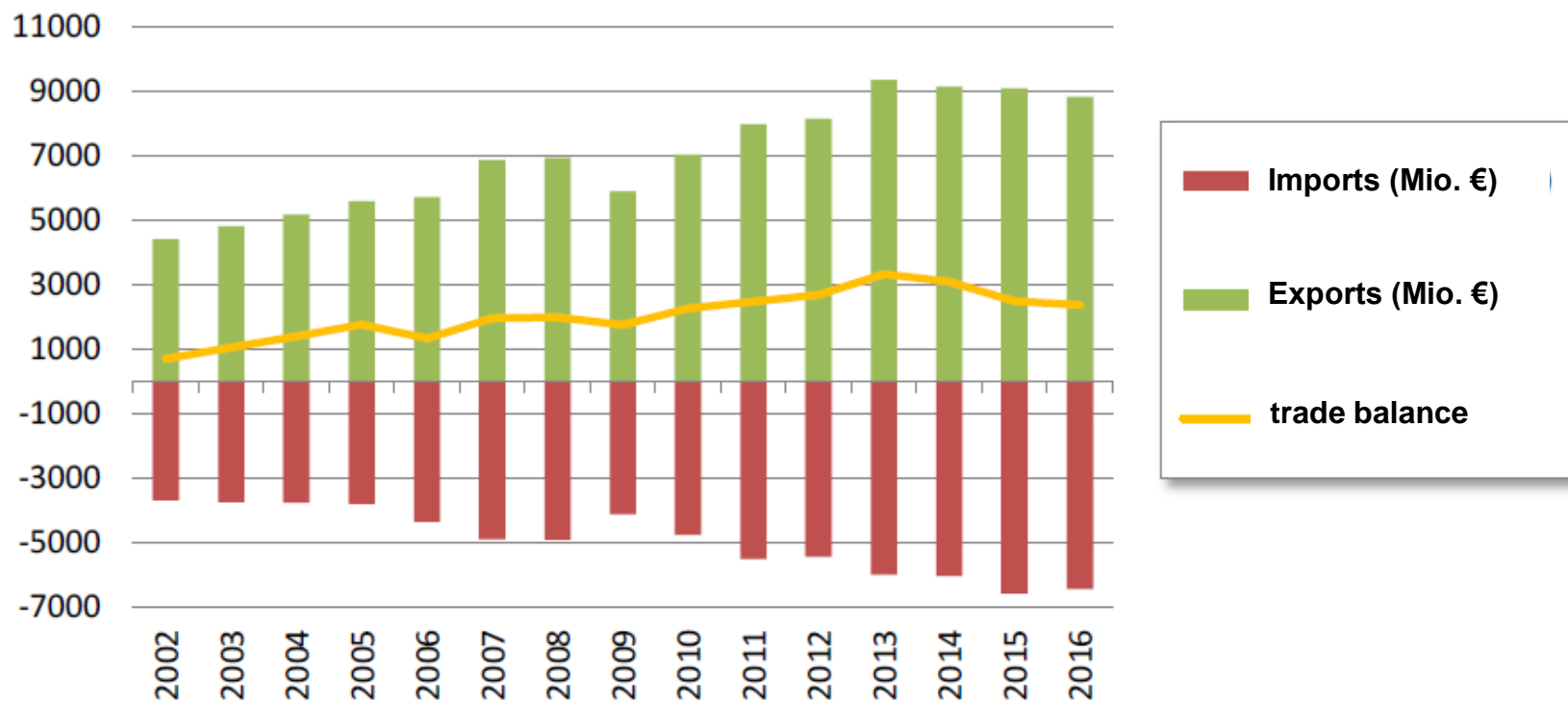
# Current structures



Quelle: ZMB 2016

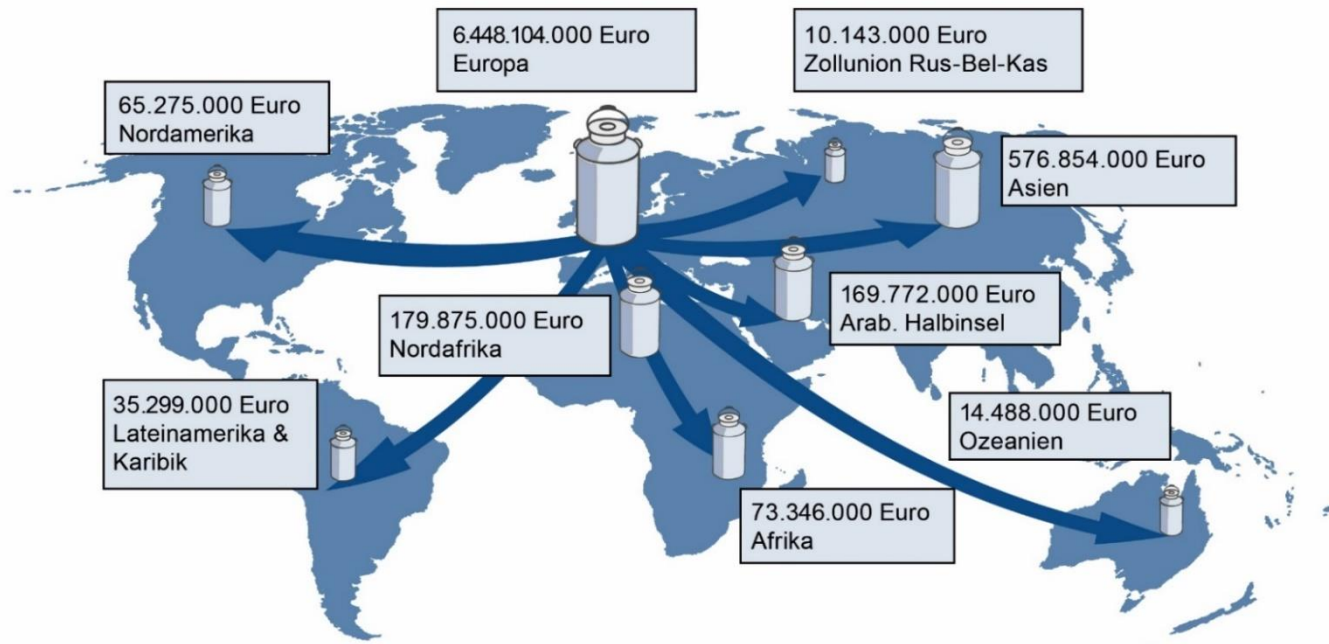
- half of our milk products are exported
- Level of self-sufficiency over all milk products: 116 %

## Imports, Exports and external trade balance for milk and milk products



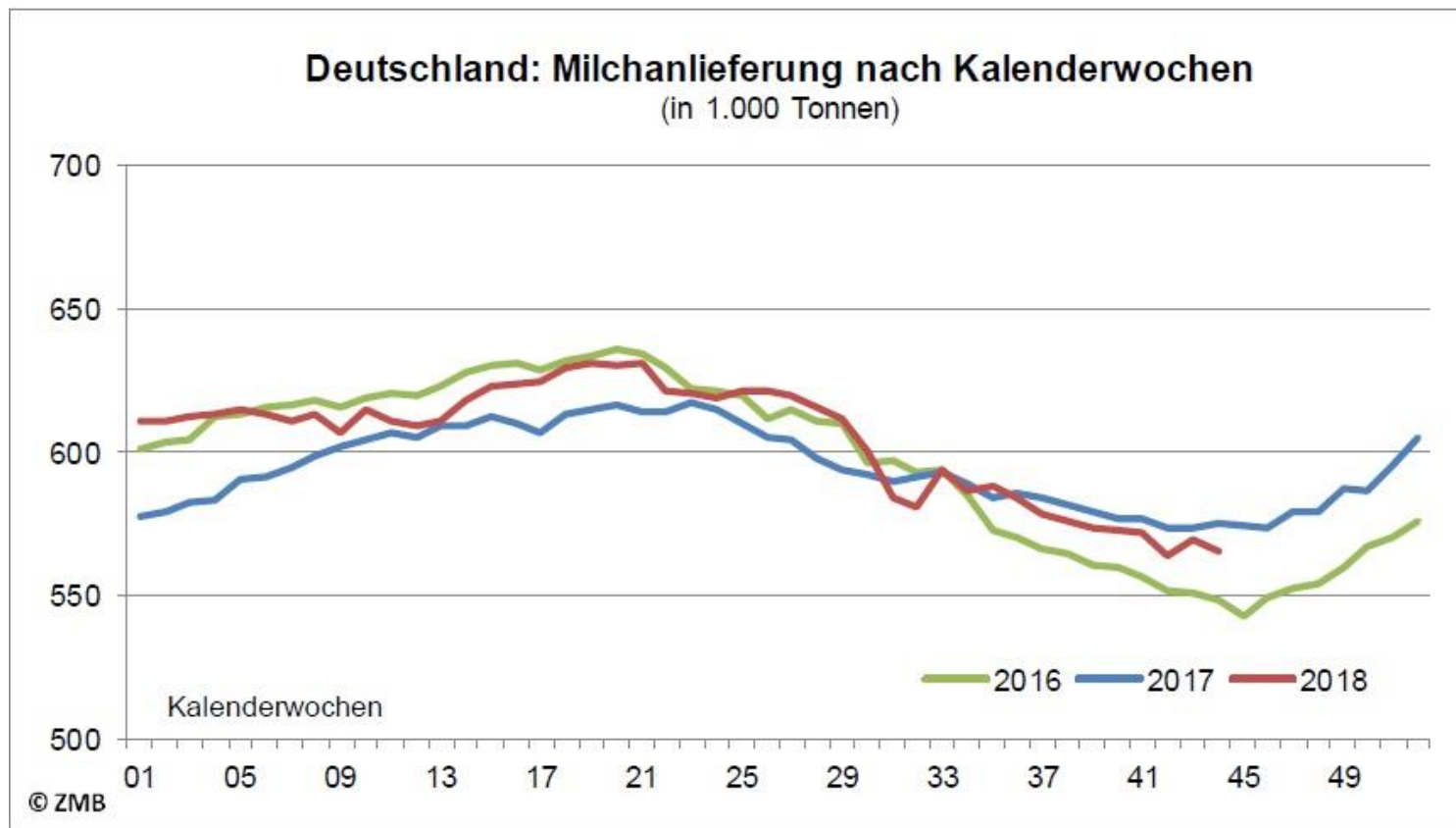
Quelle: UNComtrade Handelsdatenbank, Eigene Berechnungen

## Exports of German dairy sector in 2015 (in Euro)



Quelle: ZMB nach Eurostat

- 15 % of exports are going to third countries (with growing tendency)
- Growing markets in South-East Asia and North Africa



- **growth in production 2018: +1,4% compared to last year (01-10/2018) ...**
- **... but 2016 and 2017: production went down compared to previous year**
- **... but: heavy drought in summer 2018**

# Main challenges for the German dairy sector

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**1. Strengthen competitiveness**

**2. Overcome price risks - Volatility is here to stay!**

**3. Communicate and develop modern dairy farming**

# Price risks: Market is increasingly liberalised

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## Dairy policy: Status Quo

- Intervention price: lower
- Cut of support for alternative uses
- Export subsidies set at 0
- Abolition of milk quota
- Bilateral trade agreements: South Korea, Canada, Japan, New Zealand, ...
  - Market is increasingly liberalised

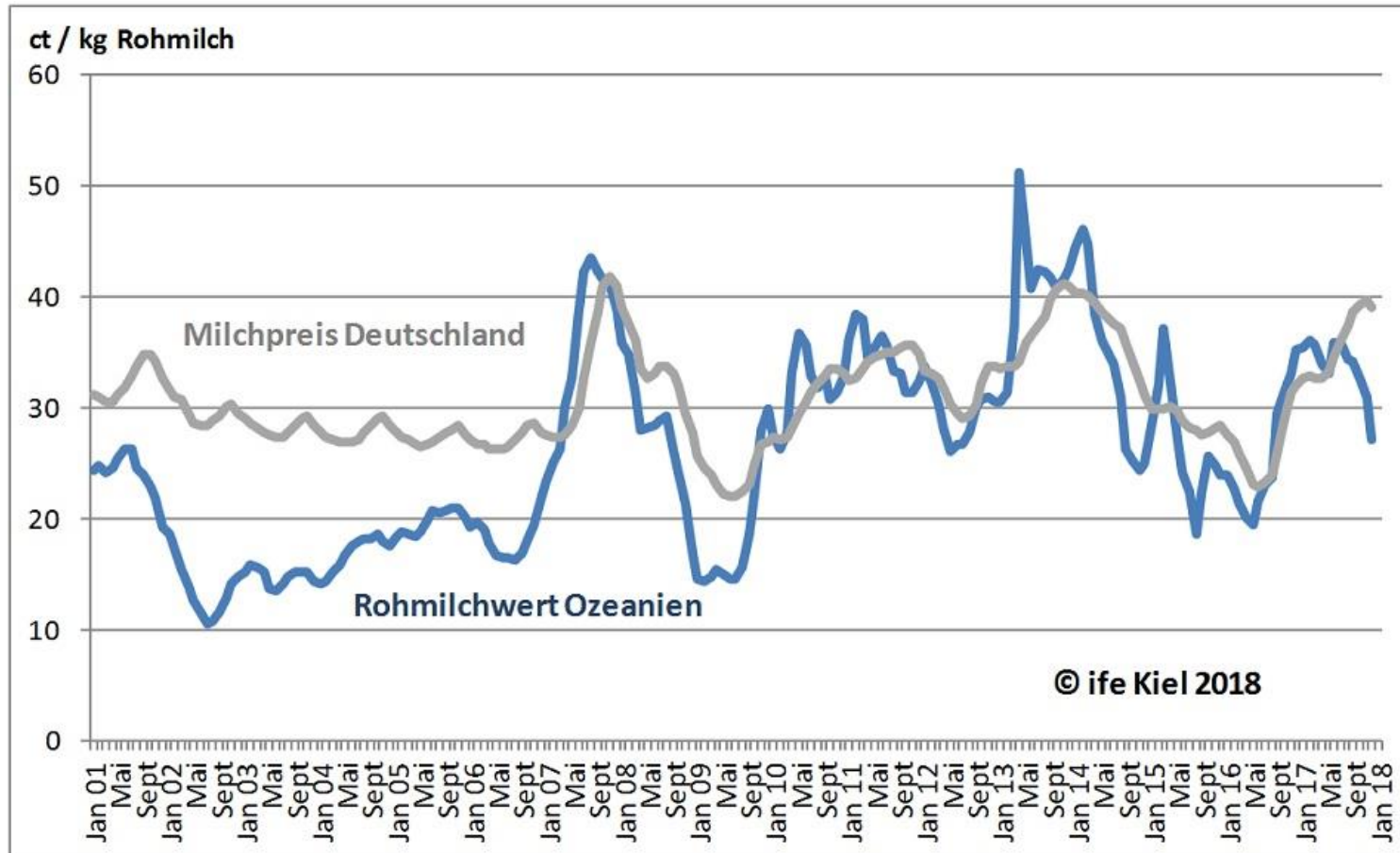


**Liberalisation creates new challenges, but also chances**

**... demand in EU is widely saturated**

**... European dairy products are desired worldwide**

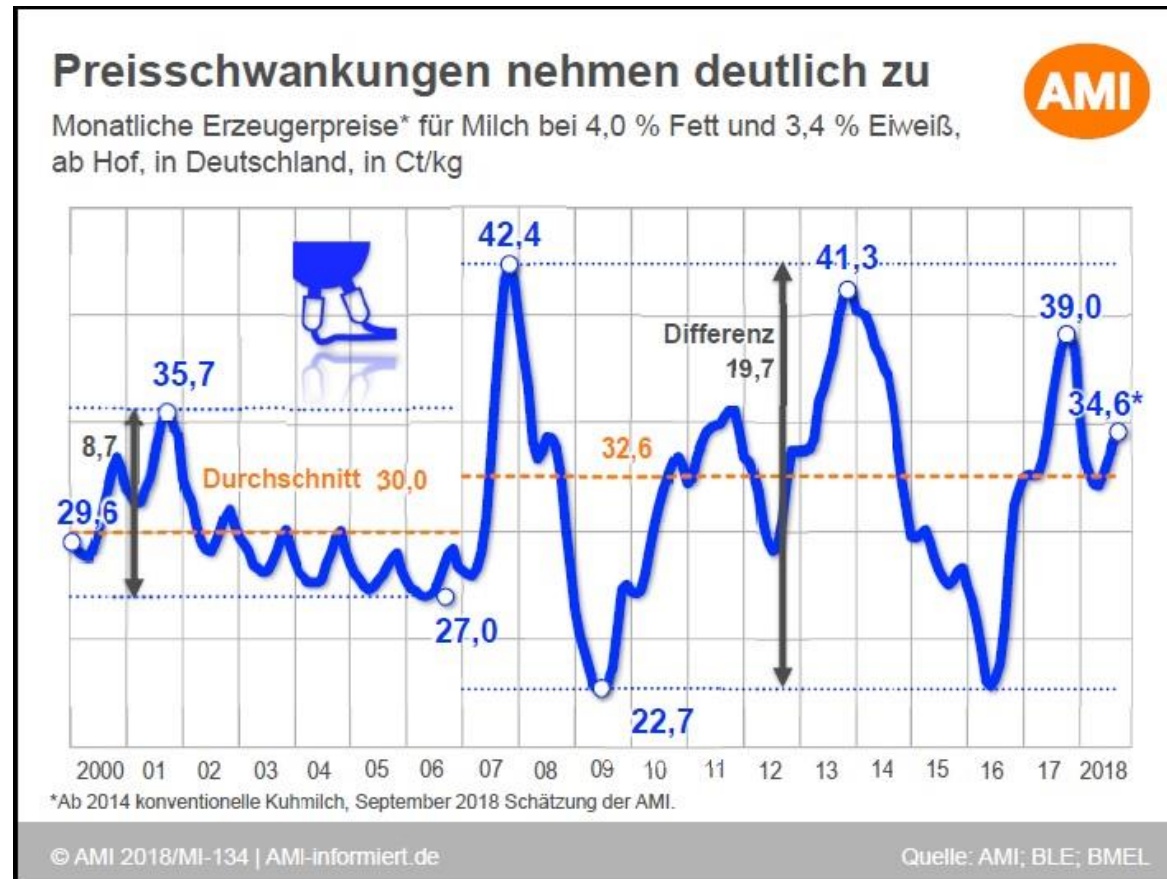
# Price risks: Close linkage to world prices



Milchpreis Deutschland und dem Rohmilchwert Ozeanien (ife, 2018)

- International market developments have a high impact on farmers' income
- National/ European market cannot be disconnected from world market

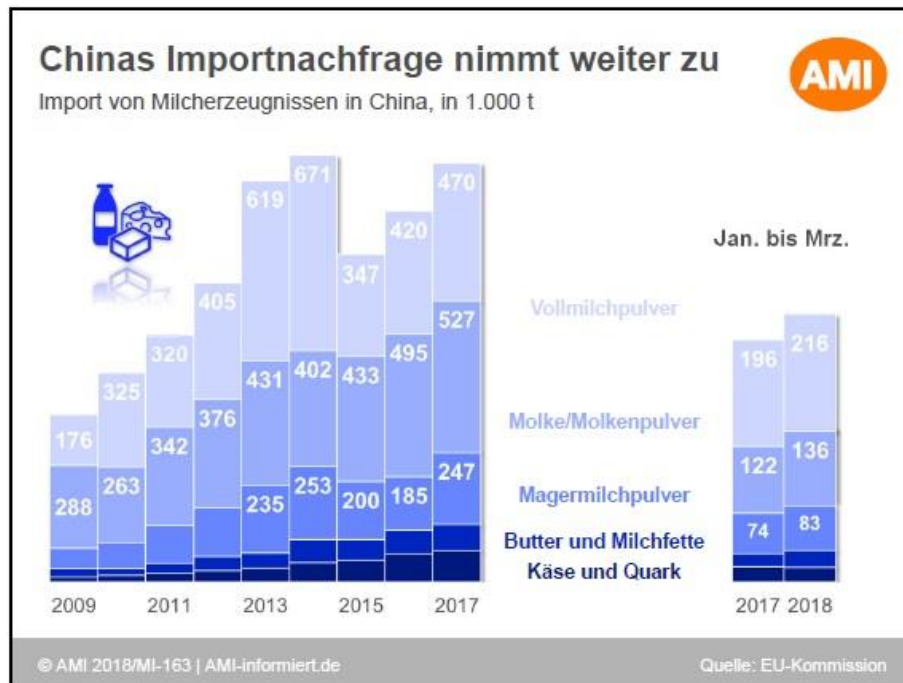
# Price risks: Higher than in previous years



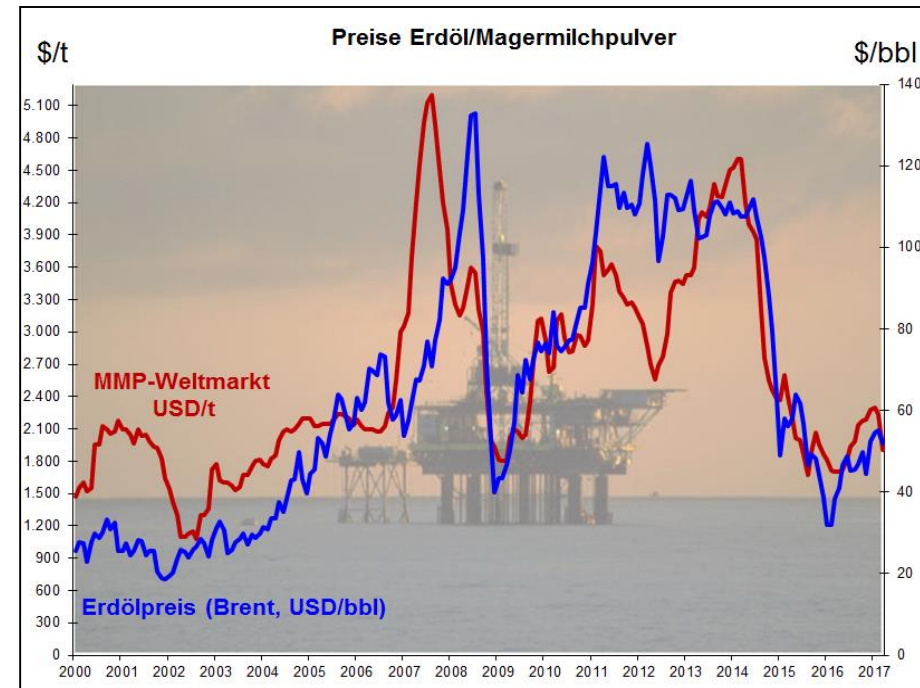
- Price volatility higher than in other agricultural sectors
- Volatility is here to stay!

# Price risks: International developments with high impact

## for example: Chinese imports

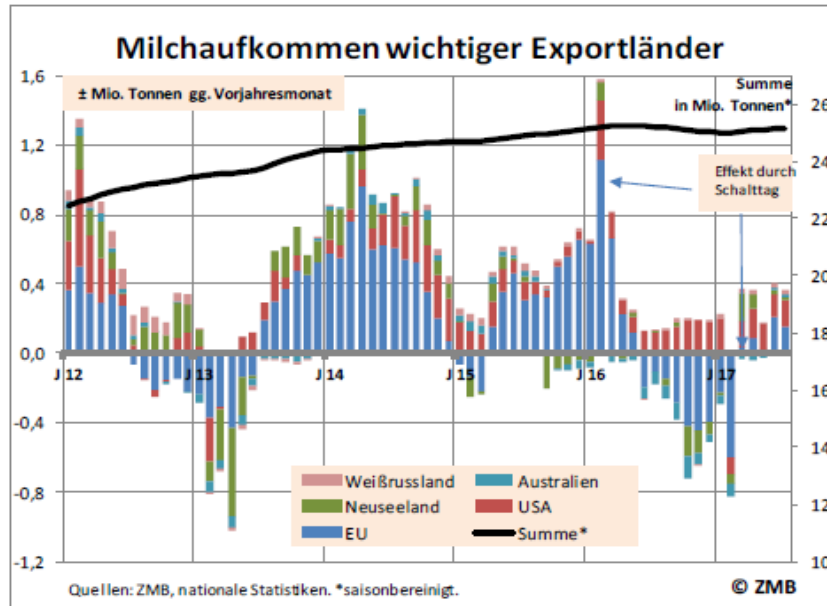


## for example: Oil prices

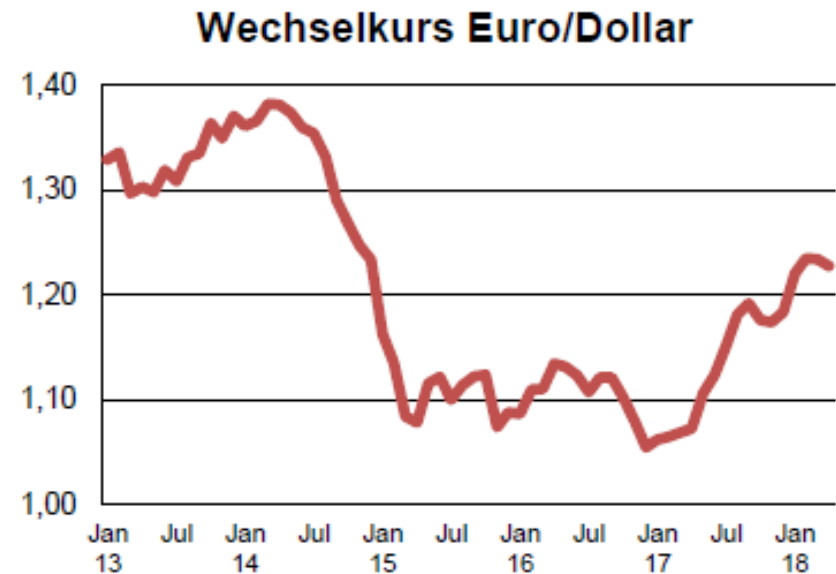


# Price risks: International developments with high impact

for example: global milk supply



for example: exchange rates



- ... and numerous other factors:
  - political tensions in Ukraine: Russian import ban
  - phosphate directive in the Netherlands
  - political unrests in North Africa or Middle East
  - ...
- Robust forecasts are more and more difficult or impossible

# Price risks: Who should act?

State / EU

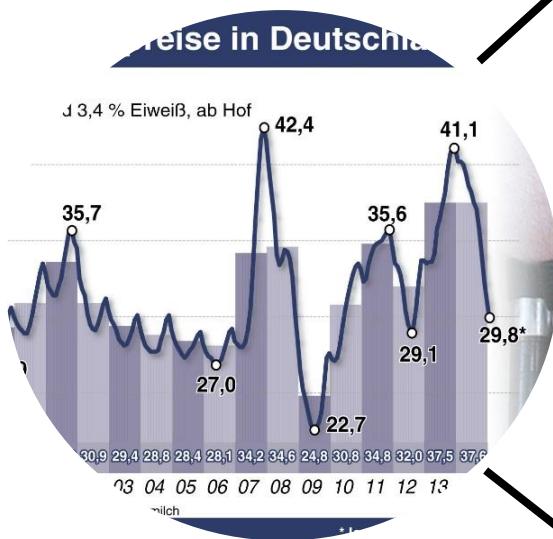
- Direct payments
- Private storage and **Public intervention**
- Tax incentives for risk management
- ...

Dairies

- Product range
- Arrangement of supply relationship
- **Use of future contracts**
- ...

Farmers

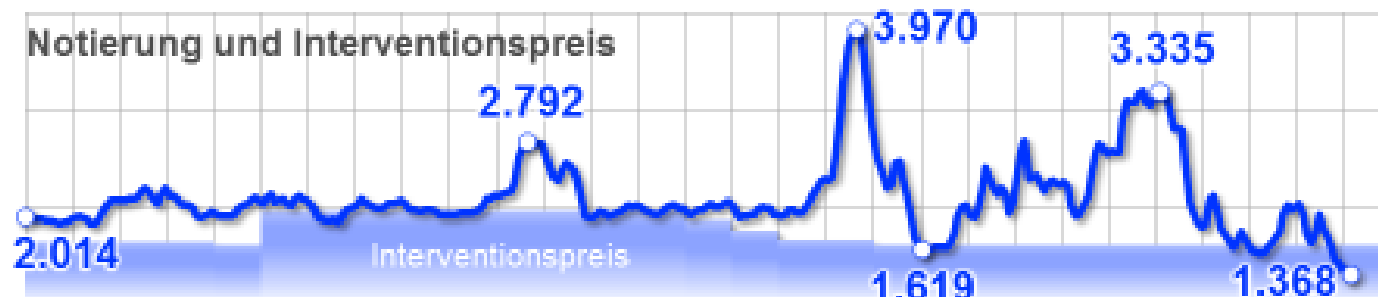
- Liquidity planning
- Diversification
- **Use of future contracts**
- ...



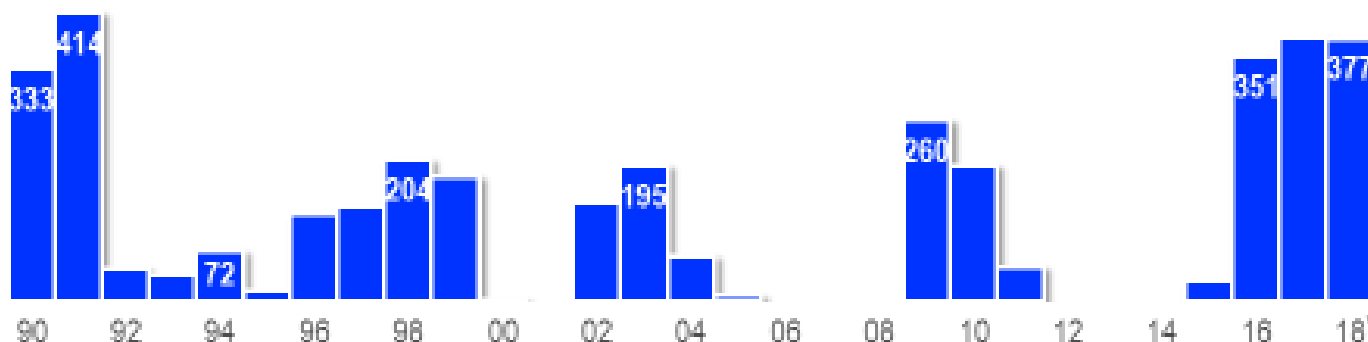
## Intervention von Magermilchpulver



Notierung und Interventionspreis für Magermilchpulver in EUR/t,  
Interventionsbestand zum Jahresende in t

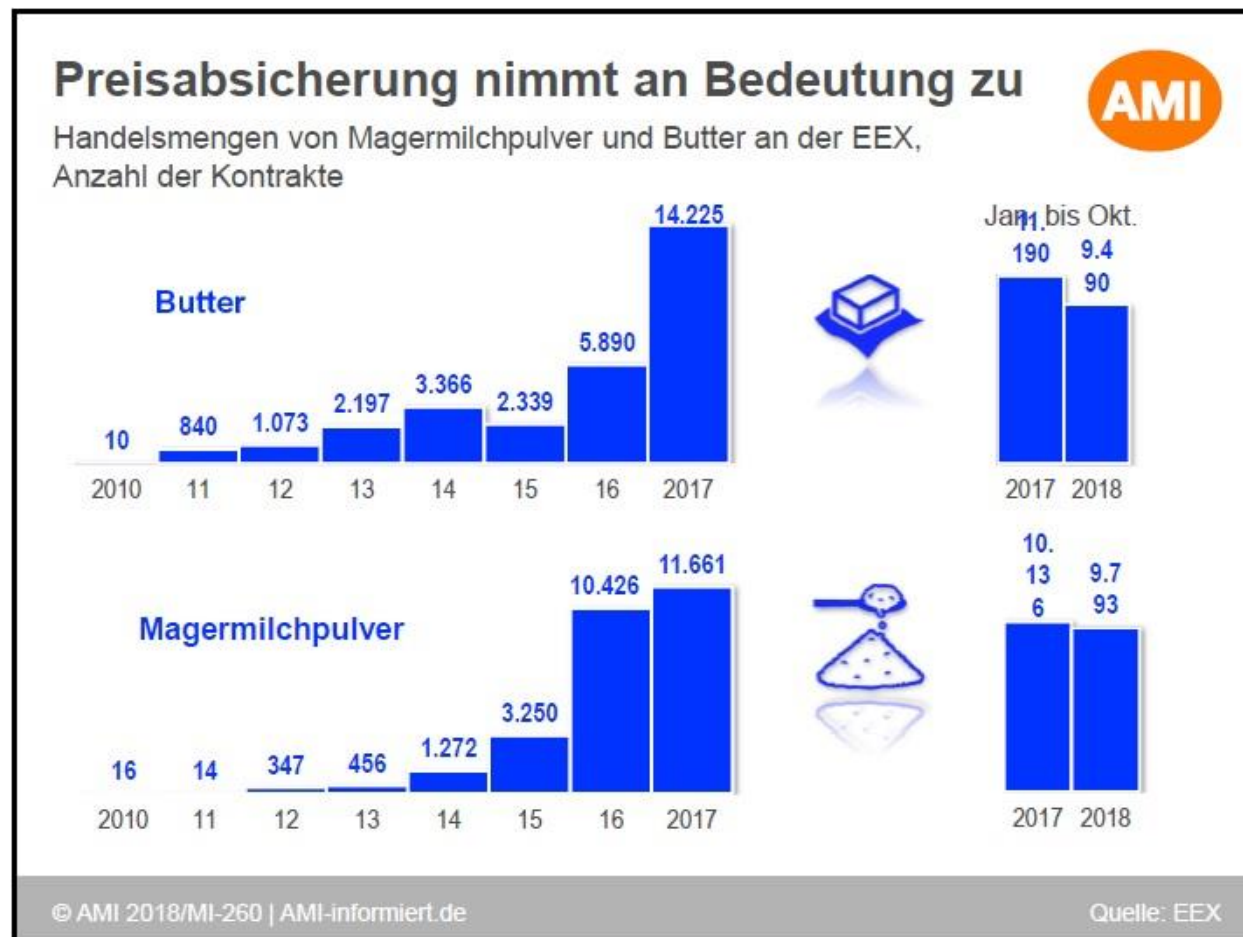


### Interventionsbestand



\* Januar 2018.

# Price risks: Trade volumes for dairy contracts at EEX



- already today, farmers and dairies can hedge a „future raw milk price“.
- Instrument is more and more common

# Price risks: Hedging a milk price is already possible

Kieler Börsenmilchwert			Dienstag, den 13.11.2018					
Kontrakt Monat	Kieler Börsen- milch- wert*	Änd.	Butter Future	Änd.	OI	MM- Pulver Future	Änd.	OI
	Ct / kg		€ / t		Anz	€ / t		Anz
Nov 18	30,8	→	4500	→	464	1625	→	747
Dez 18	30,5	↘	4300	↘	475	1690	↗	1065
Jan 19	30,5	↘	4275	↘	291	1702	↗	584
Feb 19	30,3	↘	4275	↘	276	1686	↗	482
Mrz 19	30,4	↘	4275	↘	240	1690	↗	473
Apr 19	30,6	→	4325	↘	173	1692	↗	224
Mai 19	30,7	↘	4325	↘	168	1697	↗	192
Jun 19	30,8	↘	4325	↘	181	1705	↗	362
Jul 19	31,6	↗	4450	→	48	1733	↗	132
Aug 19	31,9	→	4500	→	53	1740	↗	132
Sep 19	32,0	↘	4400	↘	51	1790	→	185
Okt 19	33,0	→	4600	→	45	1800	→	120

„Future raw milk price“ can be calculated and hedged with SMP- and butter-contracts at EEX.

with this „detour“, dairies are able to offer a price risk management tool for their farmers:

- Müller Milch (UK)
- Meierei Witzwort (GER)

## Price risks: Farmers are interested in new tools

- series of seminars in 2018 (7 seminars with 200 participants)
- also in 2019 we will offer these seminars



H. Jürgen Kiefer GmbH  
Börsen- und Handelsmakler

# Main challenges for the German dairy sector

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**1. Strengthen competitiveness**

**2. Overcome price risks - Volatility is here to stay!**

**3. Communicate and develop modern dairy farming**

## Develop dairy production: QM-Milch

- standards for milk production
- certified by neutral institutions
- audits on farms every 3 years

- „business-to-business“
  - defined by farmers and processors
- since spring 2018: Retailers are also sitting in QM-Milch Expert Group

### QM-Milch

above legal requirements

- To safe the quality of milk and milk products
- safe productions process
  - transparent
  - retraceable

**Next revision of the standard is foreseen for 1st January 2020**

**2006**  
**QM-Milch-  
Leitfaden**

**2012**  
**accredited QM-  
Standard 1.0**

**2016**  
**QM-Standard 2.0**

## Documents of the QM-Standard 2.0

- Handbook for milk producers
- Catalogue of criteria
- Legal requirements for milk production



## Catalogue of criteria

- Animal Health and Welfare
- Transparency and traceability
- Milking and storaging of raw milk
- Feed and feedingstuff
- Use of anitbiotica
- environmental requirements



- **Checklist with 55 criteria**
- **Over 90 % of German dairy farmers take part  
number is still increasing**
- **Future of “QM-Milch”**
  - **Sustainability programme: animal welfare, hygiene management**



Thanks!

# WIR MACHEN GRAS ZU MILCH

Gras + Kuh = **Milch**  
**Kühe** können das!



## DIE DEUTSCHEN BAUERN