IFA SUBMISSION TO THE DAIRY FORUM
9th March, 2016

Introduction

IFA welcomes the positive influence the Dairy Forum's direction, given by Minister for Agriculture Simon Coveney last September, had on the increased prevalence of fixed milk price contracts – an important tool to help farmers cope with extremely volatile incomes.
However, with a prolonged downturn in dairy markets bringing milk prices well below production costs, we welcome the fact that he listened to us and recalled the Forum today again.

Why recall the Dairy Forum?

- The dairy market downturn is more prolonged than anyone expected
- Dairy farmers will face milk cheques depleted by low constituents, and increased feed expenditure will also challenge cash flow
- Unless milk prices recover before peak – unfortunately not likely – Irish farmers could be looking at unsustainably low 2016 milk prices
- This crisis is affecting all EU milk producers (indeed, all producers globally)
- EU policy measures – not all very wise, or in the interest of the Irish dairy sector – are being considered, and will be brought to the table of the Ag Council on 14th March.
- There is a definite urgency in defining for the Irish sector a supportive strategy to help take farmers through this prolonged period of low returns.

National issues

- It is necessary, to ensure the dairy sector fulfils its true potential, to establish a supportive framework for farmers to help them manage their cash flow in the context of the level of investment being undertaken, encouraged by all stakeholders including Government.
- All stakeholders have a part to play, but they need to be coaxed to come forward in some cases, and their necessary actions co-ordinated to optimise their effectiveness.

- **Co-ops** – need to continue supporting milk prices, as they did through the second half of 2015, and we urge them to front load this support to the earlier, more expensive months, and to extend flexible merchant credit to help farmers manage their cash flow.
- In conjunction with **Teagasc**, they need to identify farmers in need and provide them with budgeting support.

- **Teagasc** must further encourage farmers to adopt viable short term cost cutting measures which are practical, and will help them regain control of cash flow without harming the long term sustainability of their enterprise or their herd.

- **Banks** must realise that they will soon see the impact of the current cash flow crisis in their dealings with farmers. They must prepare and have available for them short term cash funding options which are competitively priced, flexible, and readily available for farmers. They must also have at the ready investment packages which optimise the use of lower cost funds through SBCI, and are structured in such a way that they allow for repayment holidays as and when lower revenues require, without the additional cost of renegotiations.

- **Government**, and the **Minister for Agriculture**, must champion innovative tax solutions which can genuinely help farmers better manage their highly variable income, such as that proposed by IFA and ICOS. If achieving this aim requires a rethink of EU State Aid Rules and their de-minimis levels, the Minister and his relevant colleague(s) in government must pursue this with all their energy. We believe there is substantial support from other MS to at least increase the de-minimis provision (see below).

For the longer term, the Forum should meet more regularly to help develop a sustainable long term model for the Irish dairy sector in the context of highly changeable global economic, geopolitical, market and currency conditions.

While the development of risk management tools is an important part of this, it is not the only consideration. In the context of a production cycle of 3 years, farmers will need to receive from industry clear signals of market conditions and demand to make informed decisions around production levels.

EU policy issues – farmer and market supports

It is important that Minister Coveney would press the Agriculture Council, in its meeting of 14th March, to prioritise decisions and measures which will have a rapid impact on farmers' cash flow in the short and medium term. It is equally important that he would resist strongly proposed production management measures which would be both ineffectual in terms of their ability to influence prices, and severely detrimental to progressive Irish and EU dairy farmers.

- First, the Minister must demand that the EU must allow member states to provide an **exceptional suspension on the 3-year superlevy repayment scheme** for at least one year. This would give farmers some real cash flow relief by giving them an effective repayment holiday for 2016, but would have no impact on EU budgets as the superlevy due has already been paid in full to the EU.

- The Minister must persuade the EU Commision and Agriculture Council to **suspend import duties on imported inputs, especially fertilisers** with immediate effect, to increase competition on the EU input market thereby helping reduce farmers' production costs in a meaningful way.

- He must also obtain that **intervention buy in continues at full price** even when the current maximum of 109,000t for SMP (and 50,000t for butter) are reached. Normal procedure at that point is that a tender system kicks in, which has in the past resulted in the purchase price falling even below the already inadequate "safety net" level.
  The EU Commission must accept full price tenders exceptionally this year when the tendering system kicks in.

- Also, Minister Coveney must press for the immediate announcement of a fundamental **review of the intervention system,** including **price levels**, **volume limits and tendering procedures**. This may not have an immediate impact, nor will it encourage additional production for a "market" no-one wants to have to use, but it would send a global message to international markets and buyers about the unsustainability of current dairy prices.

- He must also insist that the **10% subsidy penalty be removed from the long term SMP APS**, where the storage period falls short of the 365 days. Failing to do so would potentially render users of the "enhanced" APS scheme unable to respond to market demand, which would be perverse. It would also encourage operators to use intervention rather than APS, which would also be undesirable from a market point of view.

- The **reallocation of unused national amounts for cheese APS** must be speeded up, so that countries with lesser requirements can make their allocation available to others promptly and flexibly.

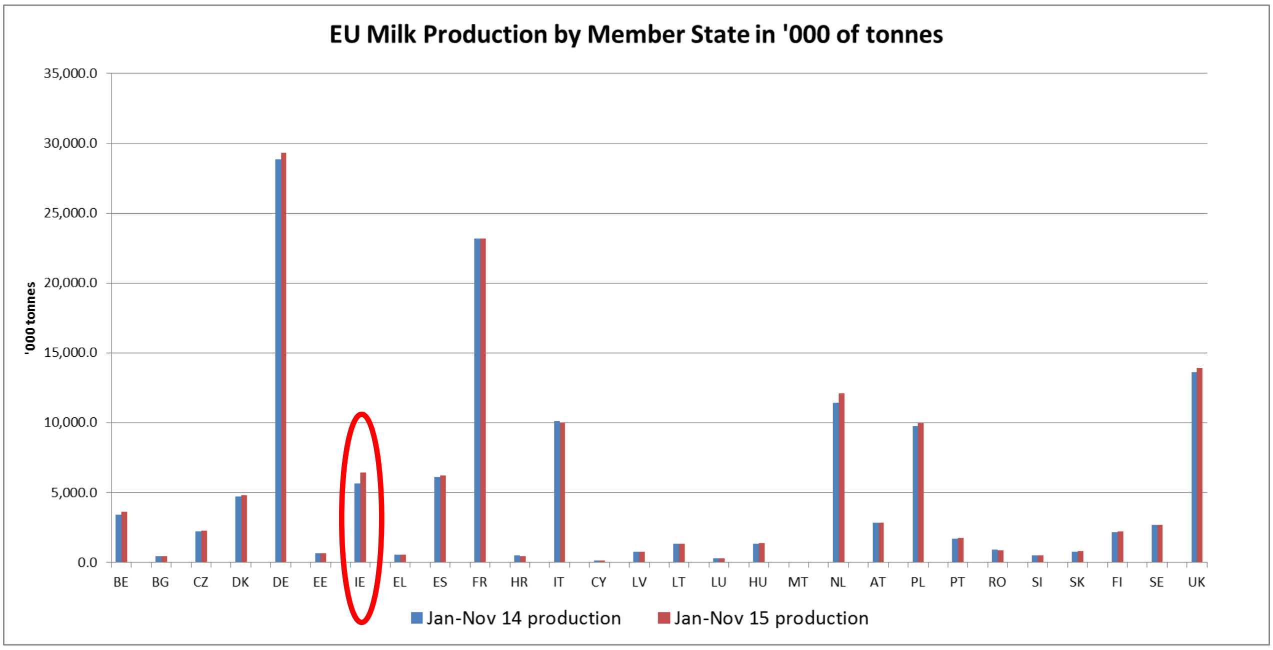
- The Commission must promptly **increase the State Aid Rules de minimis limit** from the current €15,000 over 3 years for individual farmers to €30,000 over 3 years. Longer term, it also needs to **review the State Aid approach** when it comes to assisting farmers to manage what are now highly volatile incomes levels. This would enable member states to develop **innovative tax measures** such as proposed by IFA and ICOS, or indeed to pursue other **nationally funded support initiatives**.

EU policy issues – the flawed logic of EU-wide production management

Much is being made of the EU's "overproduction" in the current market downturn, and of Ireland's role in the EU production growth. Some of the emotional, judgmental language sometimes used – and not just in EU quarters - is wide of the bigger picture, and offensive to farmers.

While it is true that Ireland has contributed the most of the additional EU volume produced in 2015, it remains one of the smallest mid-tier milk producers in the Union (see graph below).

Ireland is clearly in expansionary mode, just like the Netherlands, Germany, the UK and Poland, and we expect that, with stock increased and investments made, this growth will continue in 2016, albeit at a more modest rate of probably half of the 2015 increase in the case of Ireland.



Source: EU MMO

At the Agriculture Council table, the Minister must **reject the emotional, judgmental language** seeking to burden Irish and EU progressive dairy farmers with guilt for Europe's 2.4% 2015 production increase, and by extension, for the current market imbalance. The **current downturn is due to a multitude** of global demand (China, Russia, low oil prices...) as well as supply factors coinciding regrettably with the end of milk quotas and the reasonably anticipated first opportunity for those producers to grow.

The Minister must articulate strongly the fact that **production management proposals** being made by some member states, including France, would have **no reliably positive price impact**. This is because of two main reasons:

- **Production cuts take time to materialise**, and by the time the production response is making itself felt, market conditions have moved on. We have had experience of this during the years of the milk quota regime, when buy out schemes were being introduced.
- The second, and probably much more important reason, why production management cannot impact prices, is that the **EU operates on a market now fully exposed to the vagaries of global** weather, geopolitical, economic and supply/demand factors.
  Even if EU producers reduce production, there is nothing to stop other global competitors from increasing theirs, nor is there any reason why other global factors will not intervene to affect prices.

Production management at EU level would **disadvantage** significantly the progressive EU farmers – including Irish farmers - who, in the **legal certainty** that quotas would end in March 2015, have **invested** to grow their enterprises and their output in order to avail of and respond to long term positive global demand trends. There is something fundamentally **unfair and wrong** in seeking to prevent a farmer and his/her family, who have made a significant investment, from doing what is best to optimise income on their farm.

It would also simply **take Europe out of global markets**, shrink its market share, and hand over those commercial opportunities to our New Zealand, US, Australian, and other competitors, **decimating commercial and progressive EU milk production** in the process.

While **production adjustments, voluntary negotiated** between producers (POs, co-ops..) and their milk purchasers, may actually help rebalance domestic or local markets effectively, those **ambitious EU wide proposals are retrograde** steps, and must be resisted.

EU policy issues – focus on helping farmers cope with volatility

Far more useful, impactful and fair, would be the development of a **suite of hedging, taxation and financial options, which combined with the Milk Package measures and reviewed EU market support levels**, have genuine potential to help farmers manage their businesses successfully through periods of extremely changeable prices and margins.

Conclusion

The dairy sector's ability to deliver growth and live up to the Food Harvest 2020 and Food Wise 2025 targets critically depends on farmers' being able to make viable incomes from milk production, year in year out.

However, farmers are expected to commit, through their Milk Supply Agreement, to continue supplying their milk purchaser for up to a few years, and in many cases must provide a 3-year forecast of their planned output. Yet, there is no quid-pro-quo commitment from milk purchasers that they will not expect farmers to live up to their supply obligations if that involves producing below cost. While milk purchasers budget clearly for all their processing costs, they allow the milk price, therefore the farmer, to take 100% of the price risk.

IFA believes this is fundamentally problematic, and needs to be approach differently to secure the long term sustainability of the dairy sector. Milk purchasing co-ops should seek to guarantee to cover farmers' production costs for at least a certain volume over the period of the Milk Supply Agreement covers. Some of this could be done through the provision of fixed price contracts, or other yet to be developed hedging options.

CL/IFA/4th March 2016 – revised 8th March 2016