If the cap doesn't fit, change it

How EU taxpayers undermine Bangladeshi dairy farmers

Based on a research paper: Milking the poor • How EU subsidies hurt dairy producers in Bangladesh

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The rate we get for milk doesn't suffice.

- Hossain Fakir, Bangladeshi farmer[1]

New research published by ActionAid shows that European Union (EU) farm subsidies undermine the livelihoods of dairy farmers in one of the world's poorest countries, Bangladesh. EU milk powder exports to countries such as Bangladesh are undercutting local producers of fresh milk and domestic processors of milk powder.

The research shows that EU farmers continue to produce huge quantities of milk powder, often selling milk below the costs of production. Powdered milk exports from the EU are actually increasing, despite the EU having 'decoupled' subsidies from production in 2005. Large companies, such as the Danish-Swedish giant Arla Foods, are benefiting from EU subsidies and are exporting huge volumes of milk powder to developing countries such as Bangladesh.

The EU is preparing to reform the Common Agricultural Policy (CAP) between now and 2014, with most of the negotiations taking place in early 2012 when Denmark holds the EU presidency. ActionAid believes that the Danish presidency presents an exceptional opportunity to ensure that EU farm policy does not undermine EU development policy by preventing subsidised EU exports competing with local agricultural production in poor countries.

EU subsidies and milk

The EU's one million dairy farmers are collectively the world's biggest producers of milk, accounting for around a quarter of the world total, ahead of the United States and India.[2] The EU is also the world's second largest exporter of milk (after New Zealand), and accounted for more than a quarter of all milk powder exports in 2010.[3] Indeed, the EU exported 378,000 tonnes of skimmed milk powder in 2010 - up 63% from 2009. A further 11% increase is projected for 2011.[4] EU milk powder is mainly exported to developing countries, particularly in Africa and the Middle East.

The EU's dairy regime has routinely hurt developing countries in three key ways: by undermining domestic dairy producers, by depressing world market prices, and by pushing developing country exporters out of third markets.[5] Imported milk often undercuts local producers of fresh milk and domestic processors of milk powder.[6] Local milk processors turn to skimmed milk powder instead of fresh milk to produce their liquid milk if the price of imports falls below the local milk price.

EU dairy farmers currently receive around € 5 billion a year in subsidies under the Common Agricultural Policy (CAP).[7] The payments have been 'decoupled' from production, but evidence shows that overproduction continues and 'cheap' exports persist.

Proponents of decoupled payments claim that after having switched from traditional subsidies that were linked to increased production, the new system has no impact on production or international trade flows. This has allowed CAP farm payments to be considered as 'Green Box' subsidies – subsidies that are not supposed to be trade distorting. Yet, the new research plus several recent academic studies show the opposite: Decoupled payments do indeed increase production in the EU and help to reduce international prices, and thus may inflict economic injury upon third countries.[8] Similarly, a 2010 report by the Danish Economic Council, states that the CAP "leads to a higher level of production compared to a free market situation" and that Danish agricultural production, for example, would fall if the EU subsidies were phased out.[9]

The EU's export subsidies, by encouraging production and export, have also tended to lower world market prices for milk. Without the subsidies, the EU would produce less and have fewer surpluses to export at low prices, which would increase world market prices, and shift the balance of trade.[10] Although export subsidies are currently set at zero, they can be reimposed, as they were recently in 2009.

EU CAP Subsidies: Fact Sheet

- The 'single payment' scheme of decoupled payments delivers a massive € 5 billion per year to EU dairy farmers,[11] which has risen from around € 2.75 billion in 2005 and € 4.5 billion in 2007.[12]
- In addition, EU dairy farmers are protected by high EU import tariffs , which effectively close the EU market to dairy imports from third countries (apart from the limited volumes which enter under quota arrangements and preferential agreements).[13]
- The EU also maintains a policy of direct intervention to buy farmers' outputs at a certain period of the year to maintain market prices.
- In addition, the EU has in recent years initiated major 'safety-net' support programmes for dairy farmers to sustain milk production in the face of price declines. In 2009, for example, the EU spent an additional € 600 million in response to low prices at the time.
- The EU also pays farmers an export subsidy (or 'refund') at times when European dairy prices are higher than world prices. During 1996 to 2006 EU export subsidies on dairy products were high, ranging from € 475 million to € 1.8 billion.[14] Export subsidies were revoked for the first time in 40 years in 2007, but revived in January 2009 to help the industry cope with a global price slump.[15] At this point, the EU began offering subsidies of up to 50% on its milk powder, butter and cheese exports.[16]
- At the 2005 WTO negotiations it was agreed that all export subsidies should be eliminated by 2013 provided that a full multilateral trade agreement had been reached, but these negotiations are still ongoing

Bangladesh and imported milk

Bangladesh has a population totaling over 160 million, 72% of whom live in rural areas.[17] Around half the rural population lives below the poverty line. More than half of rural dwellers own less than 0.5 acres and the poorest 40% possess just 3% of the land.[18] Agriculture employs 70 million people and accounts for 20% of GDP.[19]

Whole milk powder is imported and marketed directly to consumers, and skimmed milk powder is imported and used for production of dairy products. In 2009, Bangladesh spent around €68 million on imports of powdered milk.[20] Not only do these milk powder imports cost a lot, but they also often enter Bangladesh at prices that are competitive with local milk prices. They are also heavily branded and marketed, and can therefore undermine domestic production and investment.

Between 20 and 50% of imports of skimmed milk powder have come from the EU in recent years.[21] The Bangladeshi media reported in 2009 that prices of imported milk powder fell close to € 1,500 a tonne from more than € 3,400 in 2008. The retail price of a litre of milk fell from € 0.32 at the beginning of 2009 to around € 0.25 by mid-year.[22] This price fall inspired sweetmeat makers, who buy the bulk of the milk produced in Bangladesh, to shift from purchasing milk produced by local farmers to purchasing imported milk powder.[23]

Milk powder imports deter small producers from producing more milk to satisfy local demand. Further government investment and protection of the milk industry would help address this problem and lead to increased domestic production and availability of fresh milk.

Dairy farming: pathway out of poverty

Around 150 million farm households across the world are involved in milk production, amounting to some 750 to 900 million people (or 12-14% of the world's population). In Bangladesh, one of the world's poorest countries, 1.4 million family dairy farms support 7 million people who work on very small plots of land, typically owning just two cows. Amidst widespread poverty, milk-producing cows are one of the most valuable assets rural households can own, providing income, nutritional milk and manure for fertilizer.

Dairy farming is a potential pathway out of poverty for millions of Bangladeshis, especially for women. The country has already developed successful examples of commercial dairy farming whereby tens of thousands of smallholders, organized in hundreds of cooperatives, provide milk to commercial enterprises which is then processed and distributed throughout the country. By some estimates, tens of thousands of poor rural households have already graduated out of poverty as a result of such models.

Along with many other developing countries, Bangladesh is a relatively low cost producer of milk, contrasting to high cost producers in Europe and the US. One recent analysis found that a typical farm in Bangladesh (with two cows) produces milk 50% cheaper than a typical farm in Germany (with 31 cows.) The same study found that for every million kilos of milk produced by EU dairy farmers, 7.6 jobs are created, but in Bangladesh the number is 350 jobs – 46 times as many.[24]

In April 2009, hundreds of Bangladeshi dairy farmers poured milk onto highways to protest against falling prices and cheap imports. Both large and small dairy farmers suffered and many said that the price they received was now below the costs of production. Some farmers saw their incomes from milk fall by 40%.[25]

Waz Ali, a dairy farmer in Sirajganj who owns a relatively large farm with 23 cows producing 100 litres of milk a day, said he saw his income fall from Taka 24,000 (€ 234) a week before the price cut to Taka 18,000 (€ 176) a week after. "I sold one of my cows last month to pay micro credit installment, as my weekly income from milk sales dropped by Taka 6,000 (€ 59) because of the price cut", he said. "Unless the government imposes higher tax and duty on imported milk powder, it will be tough for us to survive".[26]

To help support dairy farmers, the Bangladeshi government has imposed a certain level of trade tariffs on imported milk powder. Tariffs have fallen in recent years from as high as 75 per cent in 2007 to a proposal in the last budget to reduce them to as low as 5 per cent.[27] This prompted protests from local milk producers for whom tariffs are their only protection against competition from developed countries' milk powder brands, including subsidized EU milk.[28] The dairy industry's contribution to the GDP in Bangladesh is around 2.7% but the government's budget allocation to the sector is ten times less, at just 0.27%.[29]

Danish subsidized milk

In 2008, Denmark received € 1,169 Million in EU farm subsidies[30] while Danish dairy farmer typically received around DKK 330,000 (€ 44,295) a year in subsidies.[31] Some of the big farms received as much as € 500,000 in 2010.[32] These subsidies allow farmers to produce milk below the cost of production and to produce large quantities of milk for export.

Historically, the second biggest corporate recipient of EU subsidies is the Danish-Swedish dairy giant, Arla Foods.[33] It is also one of the biggest exporters of milk powder to Bangladesh, supplying between 3,700 and 6,000 tonnes of whole milk powder to Bangladesh in recent years.[34] Arla manufactures the leading foreign milk powder brand in Bangladesh – Dano, which has recently accounted for over 20% of all whole skimmed milk sales in the country.[35]

When dairy prices fell in early 2009, the European Commission reintroduced both export 'refunds' and milk premiums for farmers based on the amount of milk produced: an aid package of € 280 million for EU dairy farmers was agreed on and € 600 million budgeted for market measures.[36] In Denmark, 4,300 milk producers received DKK 73.3 million (€ 9.8 million) in milk premiums.[37] Danish milk processed by Arla Foods in 2009/10 was supported with approximately DKK 64.1 million (€ 8.6 million).[38] In recent Arla has supplied between 3,700 and 6000 tonnes of whole milk powder to Bangladesh.[39] Export subsidies were also reintroduced in Denmark. All of this was in addition to the normal subsidies granted to the farmers.[40]

In 2009, Arla Foods' milk powder was subsidized at a rate of € 35 per 100 kg.[41] This corresponds to 15% of the export price, which means that without the subsidies, Arla Foods would have had to raise the export price by 15% to earn the same income. This cost was covered by European taxpayers.

Lacking in coherence

Bangladesh is one of the main recipients of Danish development aid. The EU provided over € 200 million in aid to Bangladesh from 2007-2010.[42] The EU and Denmark are supporting Bangladesh through aid while simultaneously undermining it through trade policy and farm subsidies in Europe. While EU milk powder imports undermine Bangladeshi dairy farmers the EU is, for example, funding a National Food Policy Capacity Strengthening Programme (to the tune of € 3.3 million[43]) helping the government promote a national food policy.[44]

In 2010, the Danish International Development Agency (DANIDA) spent DKK 471 million (€ 63 million) in Bangladesh.[45] Agriculture is one of DANIDA's priority areas, and agricultural development is identified as essential for poverty reduction in Bangladesh. DANIDA correctly notes, for example, that increasing agricultural production and income improves food security, reduces vulnerability of farming households and reduces malnutrition and mortality amongst children.[46]

The solution: Ensure that the CAP does not undermine developing countries’ farmers

The research provides strong evidence that, although EU agricultural subsidies have been decoupled from production, in reality they still distort trade and harm developing country farmers. CAP reform is due to be completed by 2014 and is slated for negotiation in early 2012 when Denmark has the presidency of the EU. Denmark is in favour of CAP reform[47] and voted against a recent Commission Communication which it felt did not go far enough to reform the CAP. Denmark will announce its priorities for the presidency in December 2011 but it has already indicated that the CAP will be discussed under the overall negotiation of the Multi-annual Financial Framework.[48]

This is a key political opportunity to urge that agricultural production, under a new CAP regime, should be managed in a way that prevents subsidised EU exports from competing directly with local production in poor countries. The reforms must also include removal of all export subsidies.

In addition, and more specifically, the EU should:

- Make sure that the CAP does not harm global food security and that all payments to farmers strictly match European market demand. Production should be managed in a way that prevents subsidised EU exports competing with local agricultural production in poor countries.This entails using supply management and other mechanisms to ensure that no direct or indirect subsidies (including decoupled payments to farmers) go to any agricultural or food products that are exported to developing countries at any point along the value chain. The principle applies to subsidies on all inputs as well as exported products (subsidies for exported products should only be permitted if there is an explicit demand for European products from poor importing countries where the development of food production is not possible).
- Demonstrate greater efforts to make Policy Coherence for Development a cornerstone principle of the CAP and lead the way for new international governance in food security based on principles of universal human rights, social justice and ecological sustainability.
- Fully comply with developing countries’ demands to define, protect and promote their own agricultural policies in accordance with the needs of their people, particularly those suffering from food insecurity. In particular, it is important to respect the right to protect the development of domestic production through tariffs, which is a key agricultural policy tool for most poor countries given the low public revenues available to support local production.
- The EU’s agricultural and trade policies should be regularly monitored for their impact on developing countries jointly by the Directorate-General for Development Cooperation (DevCo) and by the Directorate– Generals for Trade and for Agriculture and Rural Development. A mechanism for assessing the ex-post impacts of the major EU policies should be established; it should be placed under the responsibility of the Secretariat-General of the Commission and closely involve the DevCo and the European External Action Service (EEAS).

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