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Intention to package of measures for phosphate reduction

During the last few weeks, the dairy sector has in cooperation with other parties composed a package of measures aimed at substantially reducing the production of phosphate by the dairy farming sector in the year 2017. The parties involved are dairy farmers united in the Dutch Federation of Agriculture and Horticulture (LTO Nederland), the trade union of the Dutch dairy farmers (NMV), the Dutch Agricultural Young People's Association (NAJK), dairy companies united in the Dutch Dairy Association (NZO), animal feed businesses united in Nevedi, the banks and the Ministry of Economic Affairs. Together they drew up a plan that is radical for all parties involved, but necessary just the same.

Why a phosphate reduction plan?

In the year 2013, the dairy sector announced in its vision that it is important for its continuity to start from a land-related dairy farm based on family businesses and outdoor grazing, while the development of the dairy farming sector takes place within the environmental conditions.

As no phosphate rights system will be legally in force yet in 2017, a substantial and quick reduction of the phosphate production is required in order to comply with the environmental requirements of the European Commission. Dutch dairy farmers are allowed to spread more nitrogen from animal manure on their lands than dairy farmers in other EU member states are (this is called the derogation). This derogation is subject to the condition that the phosphate production of the Dutch dairy farming sector as a whole remains below the limit of 172.9 million kilograms. Due to the growth of the dairy farming sector in particular, this limit was exceeded in the year 2015. Overruns for this year and next year are imminent as well. Preservation of the derogation for the dairy farming sector and compliance with the corresponding conditions are in the interest of the environment and the Dutch economy.

Based on constructive consultation with the European Commission, parties expect that the implementation of the phosphate reduction plan can safeguard the derogation for 2017. It is also expected that this will facilitate negotiations about a new derogation period (2018-2021).

The measures

The measures are aimed at an annual reduction of 8.2 million kilograms of phosphate by the dairy farming sector. According to the current perspective, this will be sufficient to end up below the phosphate maximum in 2017. The package consists of: (1) phosphate reduction through the feed track, which is expected to result in a phosphate reduction of 1.7 million kilograms; (2) the scheme for those who stop farming and those who reduce their livestock and (3) the ZuivelNL Phosphate Reduction Plan. The last two components will together decrease the phosphate production by an estimated 6.5 million kilograms.

1. Phosphate reduction through the feed track

The animal feed businesses united in the trade organisation Nevedi have committed themselves to further decreasing the gross phosphorus content in compound feed in 2017. For this they tightened the existing 'agreement concerning the improvement of the minerals efficiency through the food track', which was entered into with sector parties, being the Dutch Dairy Association (NZO), the Dutch Federation of Agriculture and Horticulture (LTO Nederland) and the Association of Accounting and Tax Consulting Agencies (VLB). This tightening includes compound feed for dairy cattle containing an average of gross 4.3 grams of phosphorus per kilogram feed in 2017. Additionally, the

organisations involved are investigating whether more detailed arrangements can be made at the overall feed ration level. Here the options at the individual dairy farms are examined and in particular the possibilities to better manage the purchasing of simple raw materials and/or wet by-products from the food industry and to steer for phosphorus in an overall ration approach, so including roughage.

2. Scheme for those who stop farming and those who reduce their livestock

In the first half of 2017, a scheme for those who stop farming and those who reduce their livestock will be opened for livestock reduction. The scheme is initially meant for farms that want to fully stop producing milk in the first or second quarter of 2017.

50 million euro will be made available for this scheme. This amount partly comes from the 'national envelope' of the EU support package of July 2016 (19 million euro of the 23 million euro), which will be supplemented with 25 million euro. For this ZuivelNL will raise the contribution of dairy farms by € 0.18 per 100 kg milk for the year 2017. Additionally, the Ministry of Economic Affairs will contribute 6 million euro.

Participation at subscription

Dairy farmers who want to make use of the scheme will be given three opportunities to subscribe. The first opening will take place early in the first quarter of the year 2017. More detailed information about this will follow. In the subsequent subscription periods the premium to be paid per dairy cow will decrease and become less attractive. The exact premium is still to be determined. The cows must demonstrably have been disposed of by means of a statement of death, export or slaughter within two or three months after termination of the period of subscription at the latest. I&R data are leading in this.

Conditions

Only the number of cows of the LU category 100 registered for the farm on 13 October 2016 will be legible for the scheme. Those who stop farming may keep young cattle (LU categories 101 and 102), but the number of young cattle may not increase in 2017.

Liquidity provision

The banks will set up a provision for a liquidity bridge in advance of the implementation of phosphate rights as from 1 January 2018. This is a common activity of banks in situations of major changes in operational management. The dairy farmers must contact their banks and make appointments themselves with respect to this.

Other dairy farms

Based on the results of the first subscription period it will be decided whether the scheme will, apart from for those who stop farming, also be opened for dairy farmers who continue their business in 2017 but dispose of a part of their livestock.

The scheme for those who stop farming and for those who reduce their livestock will be implemented by the Netherlands Enterprise Agency (RVO). The scheme is expected to result in a total phosphate reduction of 2.5 million kilograms.

3. ZuivelNL Phosphate Reduction Plan

The ZuivelNL Phosphate Reduction Plan is focused on dairy farms that will be continued in 2017. The plan includes two schemes which together are to lead to a phosphate reduction of 4 million kilograms. The dairy farmers can decide themselves which scheme is most suitable for them.

A. Milk Money Scheme

This scheme assigns a reference volume of milk to dairy farms. The reference volume is set to the milk production in the calendar year 2015 minus 4%. During the year 2017, the monthly milk supply is compared with this reference volume. Here the supply pattern of 2016 is followed, unless the dairy farmer prefers the supply pattern of 2015. Dairy farms that monthly supply more milk than the reference volume in 2017 will be cut back on their milk money. A deduction of 90% of the basic milk price, which is the milk price excluding any premiums, will be applied to the surplus supply. As an alternative for the milk money scheme, dairy farmers can also opt for the LU reduction scheme.

B. LU reduction scheme

A dairy farm participating in this scheme is given a LU reference. This is equal to the number of LUs from the categories 100, 101 and 102 registered for the farm on 2 July 2015 minus 4%. The farm must decrease the number of LUs from these categories present on 1 October 2016 to or below the level of the LU reference. This austerity package is to be implemented in the year 2017. Any increase of the number of LUs after 1 October 2016 will be added to this austerity package.

Deduction

The average livestock density will be compared with this LU reference in 2017. If the number of LUs is higher than the LU reference, a deduction will be applied to the monthly milk money. This deduction will be calculated by basically attributing 800 kilograms of milk per month to each supernumerary LU (irrespective of the actual milk production) and then applying a deduction of 90% of the basic milk price to this.

Phased reduction

Dairy farms can decrease the deduction of the milk money by disposing of more LUs (demonstrated by means of a statement of death, export or slaughter) than are brought in/added. The regular disposal of newborn calves to calve fattening farms is also regarded as reduction. For each disposed of LU the deduction of the milk money is lowered by basically attributing 800 kilograms of milk to each LU, irrespective of the actual milk production.

Five periods of at least two months will be determined for the reduction in 2017. By the end of the first period, dairy farms with too many LUs in relation to the LU reference shall have reduced 5% of the number of LUs that was registered on 1 October 2016 (unless the austerity package requires a lower percentage). In the second period, 10% of the number of LUs registered on 1 October 2016 must have been disposed of. In the third period, 20% of the number of LUs registered on 1 October 2016 must have been disposed of, dependent on the development of the total national phosphate reduction. A dairy farm that has reached its austerity package and remains at or below its reference level, will not have to further reduce its livestock.

For farms that have not yet fully accomplished their austerity package in the third period, the percentage of LUs to be disposed of will be further tightened to a maximum of 40% in the fourth period. In the fifth period, all dairy farms shall maintain their livestock density at the level reached by the end of the fourth period or reduce further if necessary.

If reduction to the set percentage is not accomplished in the first month of a period, the above-mentioned deduction will be applied to all supernumerary LUs in relation to the LU reference. If the reduction is still accomplished in the second month of this same period, the deduction will be returned.

In all cases the increase of the number of LUs is to be reduced after 1 October 2016.

Solidarity contribution

Participants of the LU reduction scheme who do dispose of the required number of LUs in a certain period, but who have in spite of this not reached the LU reference yet, shall monthly pay a solidarity contribution for all LUs still to be disposed of. This amounts to 20% of the basic milk price and will be calculated by assigning 800 kilograms of milk to each LU exceeding the LU reference, irrespective of the actual milk production.

Exemption and premium

Dairy farms that have at least 4% fewer LUs in 2017 than registered on 2 July 2015, will be exempted from both schemes. They will receive a premium for each LU (from the categories 100, 101 or 102) below the reference of 2 July 2015 minus 4% to a maximum of 2 July 2015 minus 10%. This will stimulate these farms not to make use of any potential space present or to dispose of extra LUs. Each dairy company will pay the premium from the proceeds of the deductions and solidarity contributions. The amount of the premium will depend on the means available and will amount to a maximum of 60 euro per LU per month up to and including September and to a maximum of 200 euro per LU per month for the months October up to and including December.

If the proceeds of the deductions and the solidarity contributions exceed the amount of premiums to be paid, the remaining amount will be distributed among all dairy farms that have accomplished a reduction in relation to 1 October 2016 in the first quarter of 2018.

C. Extraordinary situations

Land-related farms

Farms that did not have a phosphate surplus in 2015 and therefore are land-related in accordance with the definition of the Dutch Manure Law, do not need to reduce their livestock in relation to the livestock density on 2 July 2015 if they participate in the LU reduction scheme. In this scheme their LU reference will be equal to the livestock density on 2 July 2015. Farms have to demonstrate that they are land-related based on the data of the Netherlands Enterprise Agency.

Transfer of business

The references of businesses transferred after 2 July 2015 will be added up to a combined reference volume. This applies to both the Milk Money Scheme and the LU Reduction Scheme. The transfer of business is to be demonstrated based on the data of the Netherlands Enterprise Agency.

Turn in cattle from or turn out cattle to other farms

For dairy farms that turn in cattle from other farms or turn out cattle to other farms a separate arrangement will be worked out. This will be as much as possible in line with the Dutch Manure Law.

LU category 120

Dairy farms putting cattle from the LU category 100 into the LU category 120 (meadow and suckler cows) do not comply with the reduction as referred to in the LU reduction scheme by doing so. Only LUs that have been disposed of demonstrably by means of a statement of death, export or slaughter are counted.

D. Agreement that is declared universally binding

In order to be able to apply the same system to all dairy farms and dairy companies in the Netherlands, ZuivelNL will apply for a so-called agreement that is declared universally binding for the ZuivelNL Phosphate Reduction Plan at the Ministry of Economic Affairs. This agreement that is declared universally binding can (after it has been checked by the European Commission) take effect as soon as possible, but in view of the procedure to be followed the expected date of commencement is 1 March 2017.

E. Subsequent steps

A few subsequent steps are required for implementation of the ZuivelNL Phosphate Reduction Plan:

- the administrative bodies of the Dutch Dairy Association (and its associated dairy companies), the Dutch Federation of Agriculture and Horticulture (LTO Nederland), the trade union of the Dutch dairy farmers (NMV) and the Dutch Agricultural Young People's Association (NAJK) have to give their approval;
- ZuivelNL (LTO Nederland, NZO, NMV) must apply for the agreement that is declared universally binding;
- the European Commission must accept the total package of measures for the phosphate reduction in 2017, which has to result in the preservation of the derogation for 2017 and the prospect of extending the derogation as from the year 2018;
- the Ministry of Economic Affairs must provide the agreement that is declared universally binding after this has been checked by the European Commission.