

**Expected Income and Price Effects of the
European Parliament's Amendment to Strengthen
the Position of Farmers in the Food Supply Chain
– A Qualitative Scientific Assessment**

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Expected Income and Price Effects of the European Parliament's Amendent to Strengthen the Position of Farmers in the Food Supply Chain – A qualitative Scientific Assessment

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Executive Summary

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In October 2025, the European Parliament adopted a negotiating mandate on the EU Commission's proposal for a Common Market Organisation (CMO) regulation intended to strengthen the position of farmers in the food supply chain. The mandate seeks to stabilize farm incomes by requiring milk supply contracts to include cost-based pricing, covering full production costs, with mandatory price adjustments for changes in costs and revision clauses allowing early contract changes. While the objective is to protect farmers, the evidence from scientific analyses suggests that the proposed framework may have the opposite effect, particularly when considering the dynamics of the EU milk market and the structure of the dairy sector.

The report demonstrates that applying cost-covering indices to determine milk prices introduces multiple economic and practical challenges. Production costs vary significantly between farms and regions. A mandatory price based on the average costs would still leave the least cost-efficient farms producing at a loss, while simultaneously preventing the most efficient farms from capturing the benefits of high-price periods. This illustrates that a uniform, index-based pricing system cannot ensure cost coverage for all producers and, in practice, may accelerate structural change by forcing less efficient farms to exit the sector. The result is a contraction of farm diversity, increased consolidation, and an erosion of opportunities for young or emerging farmers to enter the sector.

Income losses are expected for all farmers, whether in cooperatives or independent, due to reduced flexibility and suppressed responsiveness to international market signals. Cooperatives face additional pressures, as cost-indexed milk prices combined with declining competitiveness of processing companies reduce margins and may trigger internal debates over redistribution. Internationally, EU milk producers may see their market share eroded, as artificially stabilized domestic prices disconnect supply from global price signals, further undermining sector competitiveness.

Overall, while the Parliament's mandate may stabilize nominal milk prices, this comes at the cost of significant expected income losses, increased structural change, and weaker EU competitiveness. Both cooperative and independent farmers are at risk of financial weakening, and the capacity of the EU dairy sector to respond to market signals and international competition will be diminished. The findings highlight the urgent need for realistic, market-compatible rules. Without such considerations, the proposed CMO mandate may inadvertently undermine the very farmers and sector it aims to protect.

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1 Background

In October 2025, the European Parliament adopted a negotiating mandate on the EU Commission's proposal for a CMO regulation to strengthen the position of farmers in the food supply chain. The objectives are to stabilize the situation of farmers in the face of uncertain markets, increase fairness and trust in the food supply chain, and protect farmers' incomes.²

As a means of achieving higher and more stable incomes, it is envisaged that, in future, milk supply contracts with a minimum term of six months between farmers and processors on the EU milk market will have to include price formulas based on production costs and fixed prices and quantities. The key points are prices that enable farmers to fully cover their production costs and a revision clause that allows for early contract changes in the event of cost changes.

2 Scientific Questions

The EU Commission and the EU Parliament did not base their decisions to improve the position of farmers in the milk chain on scientific policy impact assessments, as is usual for policy decisions. There is no scientifically based paper from the EU Commission. However, scientific analyses have already been conducted in some EU member states on certain aspects, which conclude that milk producers will receive lower prices and lose income in the future by fixing milk prices in long term contracts.

This paper therefore focuses on the following questions from a scientific perspective: How will the Parliament's negotiating mandate affect the income and price prospects of farmers - and does it strengthen their position in the food supply chain in practice when measured against actual EU milk market dynamics?

3 Qualitative analysis results on income and price effects for EU dairy farms

European Parliament decision of October 8, 2025: In order to facilitate the functioning of price transmission mechanisms, where the final price to be paid for the delivery of agricultural products is calculated by combining various factors specified in the contract, these factors should include objective indicators, indices, or calculation methods that are easily understandable to the parties. In order to avoid farmers being forced to sell systematically below their production costs, the indicators, indices, and calculation methods for the final

² European Parliament (2025): Strengthening of the position of farmers in the food supply chain: Amendments adopted by the European Parliament on October 8, 2025, on the proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No. 1308/2013, (EU) 2021/2115, and (EU) 2021/2116 as regards the strengthening of the position of farmers in the food supply chain.

price should reflect changes in market conditions and the production costs of the agricultural products supplied: **“The final price should cover the total production costs, including a fair remuneration for producers and the total costs of additional services.”**

Implementing the Parliament’s mandate would require a series of practical mechanisms to translate political objectives into workable contract rules. In theory, elements such as cost indices and observatory-generated data or benchmarks are intended to support transparency and fairness in the chain. However, when assessed against the economic structure of the EU milk market, the diversity of production systems, and the volatility of international prices, these tools raise significant technical, economic, and governance challenges. Rather than resolving the underlying issues, they risk introducing new distortions, additional bureaucracy, and reduced competitiveness.

The following subsections (3.1–3.4) therefore examine, in turn, the expected effects of cost-based pricing, indices, revision clauses, and market signals on milk producers’ incomes, structural development, and the stability of the EU dairy sector.

3.1 Problems with the cost index in supply contracts: Accelerated structural change among milk producers and higher bureaucratic costs in the EU milk sector

A milk supply contract which, according to the European Parliament decision, must always cover the full costs of milk producers within the 6 or 12-month term must include a cost index. This cost index should be adjusted in the event of significant changes in cost items. This cost index has the following problems:

- (1) It must be clarified for which farms in which regions the costs are to be covered. This distinction is necessary because costs vary greatly between farms and regions.³ This makes it clear that there will never be a uniform cost-covering price for all.
- (2) It must also be clarified whether the average or marginal costs of the selected farms should be covered. Market pricing is not determined by the average costs of the dairy farmers, but solely by the variable or total average costs of the marginal supplier. If, on the other hand, the price were set at the average of the total minimum average

³ Cost differences between dairy farms are substantial. Even when they are in the same region the difference can reach 15 cents/kg of milk and more; this is a large spread in a commodity market where margins often move within a few cents. In Northwest Germany, full costs range from 41 to 56 cents/kg, with an average of 48.5 cents/kg. A mandatory ‘average cost-covering’ price as envisioned by the Parliament mandate would therefore still leave less efficient farms 7.5 cents/kg below their cost level, while simultaneously preventing efficient farms from benefiting from high market prices. In both cases, farmers lose income, either through permanent losses or through the suppression of market upside. Rather than protecting farmers, the model amplifies structural change.

costs of all farms, this would not only be incompatible with market equilibrium, but could also result in this price being below the market price.

- (3) It is to be expected that, as with "Egalim" in France, the average full costs of a sample of farms will be used as a basis. The milk price calculated in this way would then be significantly above the marginal costs of the most cost-efficient milk producers and significantly below the cost coverage for the least cost-efficient milk producers. For the most cost-efficient milk producers, a profit margin would always be secured in the long term and include an economic rent. These farms can expand their production. The less cost-efficient producers cannot cover their costs and know that they will never be able to cover their full costs, even in very favorable market situations. These farms will cease production in the foreseeable future. This will significantly increase the structural change in milk production in the EU that is already taking place. Only the most cost-efficient milk producers will see their position in the value chain strengthened.
- (4) The expectation is that future cost indices will not only lead to higher bureaucratic costs throughout the chain, but that the cost indicators will be developed on the basis of political rather than market considerations. While the European Parliament notes that the EU Observatory for the Agri-Food Chain (AFCO) could serve as a source of information on prices, cost structures, and margin distribution, its current mandate and operational setup limit its practical usefulness for contractual pricing. The AFCO Observatory will not, as proposed by the EP (Amendment 48), be suitable as a source of indicators for contractual pricing, as it remains an exploratory, stakeholder-driven forum rather than a neutral, technically independent data source. Currently AFCO is still "developing" its methodologies, including the new cost index for the food industry and the planned index for the retail sector, both of which are explicitly described as being under review and facing "challenges in finding available and reliable data." AFCO's work relies heavily on contributions from stakeholders – processors, retailers, farmers, and consumer groups – all of whom actively discuss the data and help shape the group's analytical focus, which carries an inherent risk of politicization in any attempt to derive contract-relevant indicators through this forum. The information available to date on AFCO's activities also shows that AFCO focuses on high-level monitoring (price indices, cost indices, value chain analyses) and case studies, rather than verified microdata or cost structures at the contract level. As long as the observatory does not have a stable, independent data infrastructure and is not clearly shielded from the influence of interest groups, assigning it a role in the creation of indicators for private contracts would introduce political tensions directly into pricing and undermine the neutrality required for such indicators from the outset. Politically motivated cost indices and high control and

bureaucratic costs are therefore to be expected. Part of the costs will have to be borne by the EU dairy industry, reducing the potential margins for all stakeholders, including milk producers and dairies.

3.2 Problems with the cost index in supply contracts: Declining international competitiveness and falling market shares for the EU dairy industry

- (5) The milk price based on a cost index to cover the average costs of dairy farms in a region leads to low milk production prices in the EU in times of scarce milk supplies on the international and national markets and thus high market prices (see appendix: the example of milk producer prices in France and Spain compared to German prices). Milk producers in the EU no longer receive the market signal to produce more, but rather the market signal to produce at the same level as before. The resulting high market prices outside the EU lead to higher international milk production volumes, a market deficit in the EU, and at the same time a declining market share for the EU and its milk processors on the international milk market.
- (6) The high volatility of international milk prices in the past shows that increases in production volumes on international markets lead to lower international prices after a time lag due to the higher milk production prices there. This international milk price signal does not reach dairy farms due to a cost index covering the average costs. As a result, they produce more than they would at lower prices. However, when purchasing dairy products, the sales side is guided by international (lower) prices. As a result, the following can be expected: (1) Dairy sales prices fall, while at the same time they have to pay higher raw milk prices. This reduces the margin and stability of dairies within the EU. (2) In addition, the competitiveness of EU dairy products on international markets will decline in times of low market prices. (3) As a result, in times of low market prices, higher milk producer prices in the EU will lead to the quantity produced exceeding the quantity demanded at these prices. (4) This will then result in further cost-intensive EU policy measures for state storage, etc. We would be back in the political scenarios of the late 1970s. From the perspective of the ife Institute, it would then only be a matter of time before state or voluntary volume restrictions would have to be imposed.
- (7) With the milk prices associated with the average cost index, the EU is not only increasing market imbalances on the internal EU milk market (as shown above), but also exacerbating price volatility on the international milk market. This is because, in times of insufficient international milk market supply, the EU cannot respond by increasing supply accordingly and thus contribute to mitigating international milk prices. In times of very high international milk market supply, the EU is also unable to respond appropriately to the market by reducing EU milk volumes, thereby

exacerbating price crises and low prices on international markets. This also reduces the incentives for milk producers to either engage in more market-oriented price risk management themselves or to demand appropriate price risk management from dairies.

3.3 Problems with the cost index in supply contracts: Falling incomes for milk producers and weakening of the cooperative model in the dairy industry

- (8) The above explanation shows that milk prices fixed with a cost index in new contracts initially lead to price stabilization, however this stabilization comes with significant expected income losses for EU dairy farmers.
- (9) It is clear that significant income reductions are to be expected for the least cost-efficient milk producers with a cost index based on average full cost coverage. These farms and their banks will then know for the future that they will never again experience a price situation in which their (high) full costs are covered. They will not generate any profits in the long term. Based on business planning calculations, these farms would have to give up milk production in the short to medium term. At the same time, there is a desire to motivate young farmers in the EU to enter milk production and implement innovations. The motivation for young farmers is likely to decline significantly.
- (10) The income of milk producers will also decline because higher transaction costs will result from ongoing contract adjustments to politically motivated cost indices. The AFCO is more likely to focus on monitoring considerations and interest group-led methods for cost indices and their cost adjustments than on market-oriented, low-distortion indices.
- (11) Income for cooperative dairy farmers will decline more sharply, as the above-mentioned loss of international competitiveness and declining international market shares will lead to lower margins for them as owners of cooperative dairies. In addition to the above-mentioned reductions in milk producers' income, the principle of solidarity between the various dairy farmers within the cooperative dairies will also be undermined by the determination of milk prices on the basis of cost indices (average full costs). Less cost-efficient cooperative farmers will lose income, and increased discussions on redistribution within the cooperatives are to be expected.

3.4 Problems with the revision clause in supply contracts: Higher transaction costs of contracts lead to falling incomes for EU dairy farmers and dairies

A revision clause agreed by the EP for contracts of more than six months is intended to enable early contract changes in the event of significant market price changes due to outbreaks of animal diseases, extreme weather events, geopolitical tensions, and other reasons.

- (12) A revision clause is to be welcomed, as it moves pricing back towards market orientation. However, this goes hand in hand with an increased asymmetric contractual risk for EU dairies. If suppliers can terminate the supply contract at any time, this contractual risk must be reduced by the dairies as part of their risk management measures. As these measures usually involve costs, these costs must be borne by the value chain. At least part of these costs will be passed on to dairy farmers in the form of lower milk prices or lower utilization of their own cooperative dairies, resulting in a reduction in income.

4 Conclusions

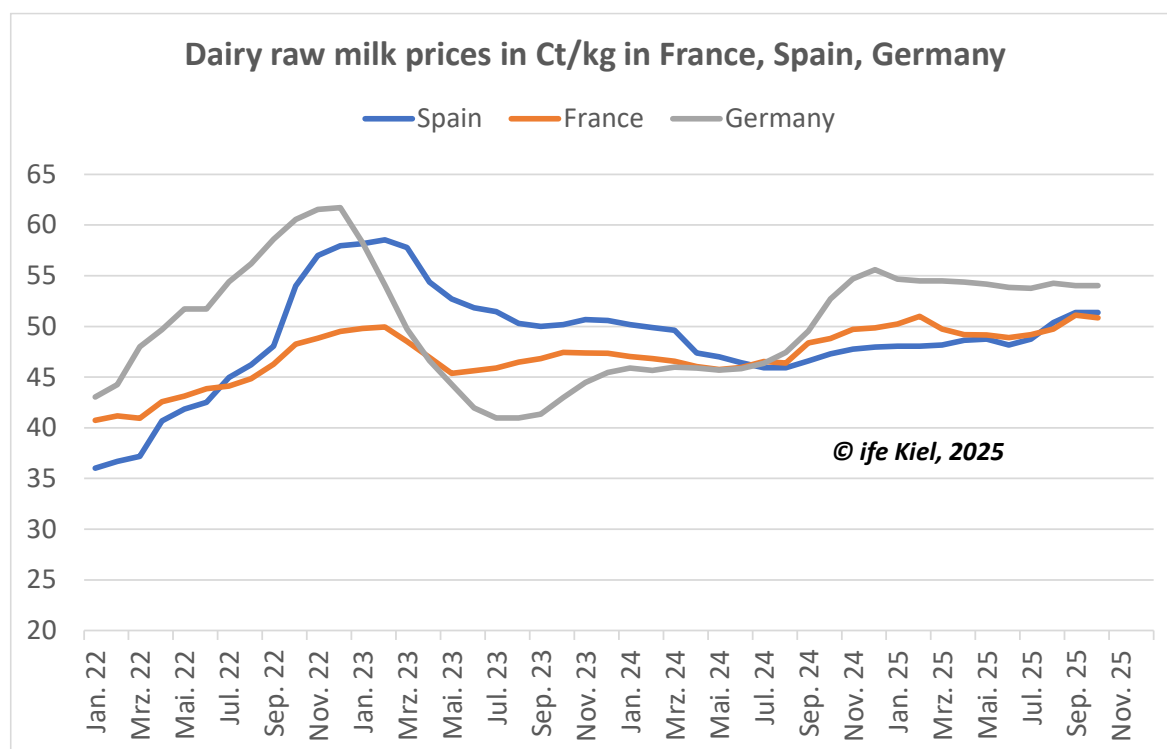
Based on the EP negotiating mandate of October 8, 2025, future milk producer prices would be determined using cost-covering indices with adjustments for cost changes, effectively aiming to cover the average costs of EU dairy farmers. While this approach would stabilize milk prices within the EU, it does so at the expense of significant expected income losses for farmers. Structural change is likely to accelerate, as the least cost-efficient farms will see that full cost coverage is no longer attainable, even during periods of high market prices such as in 2022, 2024, and 2025.

Income pressures would be compounded by the declining competitiveness of EU dairy products internationally and the resulting shrinking market share. EU dairy farmers, whether in cooperatives or independent, risk being financially weakened under this system. For cooperative farmers, additional pressures may arise as reduced margins at the processing level could trigger debates over internal redistribution. Overall, the mandate may stabilize prices, but it does so at the cost of farmer incomes, sector resilience, and the long-term competitiveness of the EU dairy industry.

Overall, it is to be expected that, despite a certain degree of price stabilization, EU dairy farmers and the EU dairy industry will lose income on an individual farm basis and welfare on a macroeconomic basis as a result of the EP's vote for "cost-covering milk prices in supply contracts."

Appendix

Level of milk producer prices in Spain and France („with cost-covering milk price models“) compared to Germany („without cost-covering elements in price models“)



Source: ife Institute Kiel based on EU COM, DG Agri, Milk Market Observatory, Brussels, 2025.

Explanatory notes: Between 2022 and 2025, the average farm-gate prices for milk (with natural fat and protein content) were 47.2 cents/kg in France, 48.8 cents/kg in Spain, and 50.4 cents/kg in Germany.

The price disadvantage for French farmers averages 3.2 cents/kg of milk in the period from 2022 to 2025.