EUROPE’S DAIRY SECTOR HAS ITS EYES ON WEST AFRICA
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Study realised by Gérard Choplin, consultant, for Oxfam-Solidarité and SOS Faim Belgique

Contacts

Oxfam-Solidarité
Thierry Kesteloot
www.oxfamsol.be
tke@oxfamsol.be

SOS Faim Belgique
Jean-Jacques Grodent
www.sosfaim.be
jjg@sosfaim.org
On the face of it, Europe and West Africa are experiencing complementary situations in terms of their dairy sectors. Europe produces too much milk with surpluses having increased sharply since the end of milk production quotas in 2015; while consumption is stagnating, as is its population growth.

Conversely, West Africa has seen a major increase both in terms of demand for dairy products and population. However, local production only satisfies a small part of its consumption.

The European dairy industry is well aware that there are growing markets in West Africa. The main dairy companies in Europe are already staking out their territory, but how do they see the future?

If ratified, will Economic Partnership Agreements (EPAs) between the EU and West Africa make things easier?

This is one of the battlegrounds around the globe where multinationals, whether private companies or cooperatives, are now vying to control the dairy market.

So, in this context, what will the role of agro-pastoral milk producers in West Africa be?

Will production be forced to become industrialised around major towns and cities? Bearing in mind the high price volatility, current levels of global overproduction and low prices, will West African governments prevail in their efforts to develop local dairy sectors in the face of the pressure exerted by the major European dairy companies that have their eyes firmly fixed on Africa?
Background

Dairy policy in Europe over the last 50 years

In 1968, a few years after the creation of the Common Agricultural Policy (CAP), the European Economic Community (EEC) establishes a Common Market Organisation in milk and milk products (milk CMO), whose primary objective is to increase production in order to ensure food security in the EEC, which was left traumatised following World War II. A target price for milk and intervention prices for butter and milk powder are set each year. The EEC is forced to buy back any surplus whenever the market price falls below the intervention price, without a limit on volume. The EEC’s preferred practices translate into variable customs duties that take prices of imported products to the EEC’s internal target price. In the event of surpluses, public-private storage of products bought back through intervention releases market pressure and these products are tendered for sale at reduced prices for export, food aid purposes or to the food industry. Export subsidies make up the difference between European prices and global prices.

While mechanisation, and the use of chemicals and hybrids, as well as the switching to corn- and soy-fed cows, significantly intensifies production, it is not a good idea to allow this system of guaranteed prices with no production limits to continue for a further 10 years, as this would lead to butter and milk powder mountains, and the loss of control of the EEC budget. Export dumping faces protests from third-party countries.

In 1984, the EEC decides to introduce production quotas by country and by dairy or producer to prevent the continuous increase in production and control expenditure (intervention storage, export subsidies). However, the European quota total is set at 10% above domestic consumption, which means there is still a significant element of surplus/export, which puts pressure on prices.
The GATT Uruguay Round negotiations conducted between 1986 and 1994 lead the EEC, in 1992, to institute a radical change in terms of agricultural policy. These include phasing-out of sector-specific CMOs, lowering of internal prices to meet global prices (which in turn eliminates export subsidies) and producer compensation via direct subsidies. As far as milk is concerned, the reform only played a part during the 2003 CAP reform, which coincided with the announcement of the end of milk quotas by 2015.

In implementing the GATT/WTO agreement, the EEC, which then becomes the European Union (EU), makes its producers compete with others (i.e. New Zealand producers) that have the lowest production costs in the world, thus giving up control of production. It is confident in the fact that the increase in population and living standards in emerging countries will provide opportunities to place additional European milk surpluses.

The sudden rise in prices in 2007-2008 reassures the EU that it has made the right decision in choosing deregulation as a strategy. To ensure a smooth introduction of milk quotas, the European quota undergoes a gradual increase of 7% by 2015.

The price volatility brought about by global deregulation quickly thwarts the plans of an EU that is only too keen to allow itself to bow to the dairy companies that want to buy cheap milk. In 2008-2009, an international market reversal sends milk prices plummeting.


A third of dairy farms disappear between 2007 and 2010. But the EU stood firm in its neoliberal logic, despite a number of European producers mobilising against it. In an effort to appease them, in 2012 it agreed to a reform intended to strengthen the negotiating power of producers with regard to dairies by encouraging the establishment of producer organisations –with restrictions in terms of size¹– and offering optional individual contracts between producers and private dairies. But because it is a surplus of a fresh product, it is the dairies that impose their conditions².

Deregulation and a tendency to create contractual arrangements mark the end of a European public dairy policy. It is in fact dairy farms and supermarkets that call the shots, given that the concentration and negotiating power will always be greater than the producers'.

In Belgium, 50% of dairy farms disappear in just 12 years (2000-2012).³ The situation has since deteriorated further.
In April 2015, milk quotas expire and, as expected, European production increases and prices drop (see below). With European producers in the midst of yet another endless crisis, and with dairies building more and more milk powder production facilities while remaining dependent on exports, will the EU have the foresight to change a dairy policy that is heading for the cliff?

Collected liters of cows’ milk evolution in June 2016 compared to June 2015

Raw Milk Price evolution in June 2016 compared to June 2015

Source: EStat - Newcronos

Source: Member States (Reg. 479/2010)
The European Union’s West Africa trade policy

As just seen with the CAP, trade policy is critical to agricultural policy. This is also the case for West Africa and its relations with Europe.

After several African nations gained independence, the 1963 Yaoundé Convention was signed between the EEC and 18 African countries, which includes, inter alia, non-reciprocal trade preferences in terms of the tariffs applied to products from these countries. In 1975, the Lomé Convention, which was ‘based on partnership and solidarity’, extended these provisions to 46 developing countries, adding the “Export Earnings Stabilisation Scheme (Stabex) which is designed to offset the revenue deficit of exports due to price fluctuations in global markets”. Between 1979 and 1995, the term of the Lomé Convention was extended 4 times and its scope enlarged to encompass an even greater number of countries (African, Caribbean, and Pacific Group of States, also known as the ACP Group).

But with the signing of the General Agreement on Tariffs and Trade (GATT) at the Uruguay Round in 1994 and the creation of the WTO in 1995, the EU imposed a new agreement on ACP countries, which was signed in Cotonou in the year 2000 and designed to comply with WTO rules, the first of which was to remove the Stabex system.

The Cotonou Agreement provided for the signature of an ‘Economic Partnership Agreement (EPA)’ between the EU and ACP countries, whose aim was to put an end to the non-reciprocal tariff preferences, whereby ACP countries would henceforth import European goods at reduced tariffs. Faced with collective resistance from the ACP countries, the EU split the negotiation into 6 regions, one of which was West Africa.

The EU imposed a new agreement on ACP countries, which was signed in Cotonou in the year 2000.

From the outset, the African states were reluctant to lose revenue from customs duties, without receiving anything in return from the EU. Compared with the world’s leading trade superpower, West Africa has little weight and the EU will apply pressure. But by late 2007, no African state has signed. While many African civil society organisations, including ROPPA®, put pressure on their states not to sign the EPAs, the EU, which has lost much of its market share in West Africa (a current 30% market share, down from 80% in 1975), issues an ultimatum to African leaders: if they do not ratify the regional EPAs by 1 October 2014, Ivory Coast, Ghana, Nigeria and Cape Verde exports will be taxed by the EU at entry.
Compared with the world’s leading trade superpower, West Africa has little weight.

Ivory Coast caved in first, followed by Senegal. These two countries make the other ECOWAS nations follow suit. Following 10 years of resistance from African countries, the EPA is signed in 2014, with a deadline for ratification set for 1 October 2016. All West African countries subsequently ratify the agreement, with two notable exceptions: Nigeria, the largest economy (accounting for 56% of the region’s GDP) and therefore the most coveted by the EU, and the Gambia. The EPAs would enable the EU to compete with Nigeria in the West African market. Signing of the agreement is far from a done deal, and it requires, in any case, ratification at the European level. Despite Nigeria’s refusal, the EU could enter into an interim agreement with the other ECOWAS countries.

The EPA stipulates a 5% cap on duties for milk powder in West African countries. This already exists in the form of the common external tariff (CET) applied by ECOWAS, which favours low-priced supply for the urban poor. Therefore, there would be no significant impact at first glance, but increasing the duty would as of now be impossible. This would prevent West Africa from being able to change its stance in order to prioritise local production.

The EPA stipulates a 5% cap on duties for milk powder in West African countries.
European deregulation of dairy production subjects producers even further to the vagaries of an international market fuelled by surpluses from certain producing countries. New Zealand's production accounts for only 2.5% of global production and yet for one third of global exports. This country, with its ‘multinational cooperative’ Fonterra and its quasi-monopoly of milk collection, sets global prices.

In the EU, the sharp increase in production (+7% in two years from 2014 to 2015) combined with several other factors to make prices fall well below the production costs of most producers. These include increased production in New Zealand and the US, a Russian ban on imports from the EU, and a decline in Chinese imports.

In March 2016, the average price of milk in the EU was still down, at EUR 0.281 per litre, while the average production cost was around EUR 0.40 per litre, meaning a considerable daily loss for farmers. Many small- and medium-scale producers stop production altogether. Some even commit suicide. Large farms survive on bank loans... or stop producing milk, as in the UK, where large herds are for sale. The only ones still standing are organic producers and those who process and sell their products directly to local consumers.

We are witnessing a headlong rush towards bigger farms, with more intensive production, using milking robots, and where cows are kept in stables and no longer graze. However, the case of Denmark shows how such farms have significant production costs, are often highly leveraged by large investments, and are thus fragile and difficult to sell. Moreover, this makes no sense in environmental and climate terms in a Europe that has millions of hectares of permanent grassland storing large amounts of carbon and that promotes biodiversity.

Despite the economic, social and environmental impasse due to the absence of a current dairy policy, the EU is proving to be steadfast. Some states, such as the Ireland of EU Agriculture Commissioner Phil Hogan, want to double their production, arguing that they can produce more cheaply than the other countries and take their market share as well.

As for the dairy industry, it has a raw material at very low prices and, as the price of dairy products do not fall for consumers, it increases its margins, even if it must engage in fierce negotiations with the supermarkets. This is how it secures the resources to explore new export markets, as it has the largest stocks of milk powder (800% increase over one year without increasing the price).
EU skimmed milk powder exports have increased in recent years and currently exceed the forecasts made before the end of quotas. While the European Commission forecast a steady increase in exports of skimmed milk powder in 2013 reaching 637,000 tons in 2023, this figure has already been exceeded (691,000 t in 2015). Fewer farmers, more factory farms, more milk, fewer producing regions, more milk powder surpluses to sell off through exports. ‘Dairy Europe’ is going into free fall and cannot be stopped as this risks destabilising dairy production regions such as West Africa. So, should we wait for a volcanic eruption to occur in New Zealand before prices are raised?

(*) Express in thousands of tons of skimmed milk powder, according to Eurostat
At present, 390 million people live in West Africa, half of them in Nigeria, which alone is expected to reach a population of 400 million by 2050. With a population growth rate among the highest in the world, West Africa faces a major food challenge: how to feed the next 800 million people. So, how is Nigeria going to respond to the continuous increase in demand for dairy products?

In 2010, 44.9% of the population in West Africa is concentrated in urban areas. By 2050, this figure could reach 68%. A high level of urban concentration shows how little the agricultural and rural economy appeals to people, which continues to fuel the rural exodus. It is easier for governments to facilitate the import of cheap foods –such as milk powder– to feed the urban poor, than it is to maintain the rural population in rural areas by developing agricultural and trade policies that would enable them to live off their production and have access to the local and regional markets. Conversely, these very same governments have for a number of years also wanted to develop the local dairy sectors.

Livestock (meat, milk and derived products) continued to be a pillar of the economy (ranked 2nd in Burkina Faso), particularly in the Sahel region. Pastoral and agro-pastoral dairy production play a major role in food and rural life. “In the Fulani language, milk is ‘kossam’, which means it is the very best of foods.”

In Mali, 30% of the population depend directly on livestock. “With 7 million head of cattle, 16 million small ruminants and 500 000 camels, Mali boasts one of the largest livestock holdings in Africa”.

Nowadays, about 80% of the milk consumed in West Africa comes from local production.

Nowadays, about 80% of the milk consumed in West Africa comes from local production, with significant variations depending on the country, pastoral tradition or distance from import ports. “Domestic production in Senegal caters for only a third of domestic demand, whereas in Burkina Faso, Mali and Niger most of the demand is covered in this way” says Amel Benkhala, GRET. Most of the milk is consumed by the farmers and their families. Only a small portion is sold and the rest of consumption, especially in urban areas.
areas, is based on imported milk powder.

There seems to be a significant potential to increase milk production (the average yield per cow is about 500 litres/year, compared to 6 500 in the EU). A number of micro-dairies started to emerge in the 1990s, but their development has encountered numerous technical obstacles: irregular supply during the wet and dry seasons, seasonal movement of herds, poor genetic pool of local breeds, difficulty maintaining cold chain integrity, lack of infrastructure, grazing areas reduced by ever-expanding cities, and so on.

*Increased milk demand opens up opportunities to local producers and importers.*

Increased milk demand opens up opportunities to local producers and importers. For the pastoral and agro-pastoral economies to be able to tap into this growing market, first the milk made from imported milk powder would have to be more expensive than local milk. But for a long time it has been the opposite. EU dairy firms have been able to export their surpluses without limit and at very low prices. In fact, what they did was buy milk from European producers at prices below their production costs, which is tantamount to dumping. For instance, in Burkina Faso, milk powder nowadays is 3 times cheaper than local milk (see section 5).

If Kenya was able to develop a local dairy economy it was because its customs duties were at 60%.

This is possible because customs duties (CETs) on imported milk powder in the countries of the ECOWAS region are only 5%. If Kenya was able to develop a local dairy economy it was because its customs duties were at 60%. The challenge for ECOWAS governments is size, with them being caught between ensuring the supply for the urban poor and developing milk production. The implementation of the EPA would further narrow their choices.
If agro-pastoral production is to be developed, several other issues must be considered:

To mimic the texture of whole milk, currently about a third of imported skimmed milk powder is mixed with palm oil, as it is cheaper than milk fat. And yet Africa is producing more and more palm oil. This could hinder a price increase of imported milk powder and be harmful to the health of consumers.

A few intensive dairy farms in periurban areas—with higher yielding cows that are either imported or bred with local breeds, using cottonseed or soybean cake—have cropped up in recent years, mostly by local agri-entrepreneurs. “This is a relatively old dynamic, yet one that has developed rapidly over the past fifteen years.”

In some basins such as the Senegal River Basin, the intensification of dairy production could come into competition with rice production, as they both need irrigated perimeters. For the time being, rice appears to be taking priority.

With the exception of Benin and Ghana, West African countries are yet to fully implement the ‘International Code of Marketing of Breastmilk Substitutes’

The increase in population means that milk production trends in West Africa will depend not only on domestic and regional political wills, but also on European dairy policy and the implementation of trade agreements between the two regions, all of which falls under the influence of the global market dominated by New Zealand, not to mention the possible effects of global warming on the duration and severity of the dry seasons.

Assuming that the major European dairy firms have already considered all of these factors in possible scenarios, the nature of their interest in this African region becomes apparent.
Keen on securing a raw material at a low price, the major European dairy firms, whether private companies or cooperatives, instituted the deregulation of European production in 2003, staking their money on growing export markets.

In the global battle for milk, these firms are determined to secure their place in these markets, through a series of mergers, acquisitions, partnerships and other mechanisms. In view of the significant population increase in West Africa over the coming decades, the parallel increase in demand – so long as it can be met – is sure to whet appetites.

The priority of the major European firms in the short and medium term is to sell their surplus milk powder, especially as the Russian market is closed and the Chinese market is unpredictable. The sharp increase in European production puts those companies under pressure and in competition to find outlets.

The 'social responsibility' of these companies represents a growing part of their communication campaign, as is the case of Friesland-Campina's, entitled: 'Contributing towards food supply security with a local focus' on its website.

But the point is becoming established in local milk processing. Today, dairy companies are concerned about their image, as they are faced with accusations of dumping milk powder onto the markets in ‘developing’ countries and with the desire of some West African governments to develop local dairy industries.

So, will the West African market come under the control of milk multinationals?

Exports of skimmed milk powder from the EU to West Africa have been increasing for 10 years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (thousands of tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>21.007</td>
</tr>
<tr>
<td>2010</td>
<td>29.646</td>
</tr>
<tr>
<td>2012</td>
<td>34.906</td>
</tr>
<tr>
<td>2014</td>
<td>44.457</td>
</tr>
<tr>
<td>2015</td>
<td>39.718</td>
</tr>
</tbody>
</table>

expressed in thousands of tons - European Commission
Current presence of European dairy companies in West Africa

In 2015, the largest European dairy firms were, in order of turnover: Nestlé (CH) – Lactalis (F) – Danone (F) and FrieslandCampina (NL), Arla Foods (S) and Sodiaal (F). They all\textsuperscript{23} have a presence in West Africa.

In 2009, the Belgian cooperative Milcobel/Belgomilk set up a Belgian milk powder processing plant in Bamako. Small sachets of Incolac are sold in Mali, Burkina Faso, and so on.

While it does not cover all countries in West Africa, the map p.17\textsuperscript{24}, which dates from 2015, gives us a partial, yet significant insight.

While some companies like Nestlé have been operating in Nigeria, Ghana and Senegal since the 1960s, the majority of investments date from the 2000s and even more so the 2010s. The two most recent examples jump to mind. On the one hand, Arla acquired 75% of the Attieh/Agroline Group in Senegal in late 2015, which was rebranded as Arla Senegal SA\textsuperscript{25}. Its milk powder packaging plant began operations on 17 May 2016. On the other, the Bel Group (F) launched, as recently as March 2016, a ‘Laughing Cow’ manufacturing plant in Abidjan for both the Ivory Coast\textsuperscript{26} and other markets.

Let us look at the case of Nigeria, Senegal and Burkina Faso.

Nigeria, as we have seen, is by far the largest market in the region. Five major firms are already operating there:

\begin{itemize}
  \item In 2015, Arla entered into a 50/50 joint venture with the Tiararam Group (Singapore) to form TG Arla Dairy Products LFTZ and distribute Arla products in Nigeria. “For Arla to succeed in Africa we must succeed in Nigeria”, said Steen Hadsbjerg, head of Arla in Sub-Saharan Africa.
  \item In acquiring 13% of Wamco’s additional Peak units for EUR 180 million last year, FrieslandCampina gained controlling interest (68%) and subsequently set up FrieslandCampina Wamco (FCW) to import milk powder and evaporated/condensed milk. In 2010, FCW began operating local milk collection centres with the support of the Nigerian government.
  \item In 2013, Danone went into partnership with the Abraaj Group (Dubai) and acquired 49% of Fan Milk International, which boasts a network of 30 000 milk distributors using bicycles and carts across 6 countries (Benin, Burkina Faso, Ivory Coast, Ghana, Nigeria and Togo: 250 million people) to deliver ice cream products made from imported milk powder. “This is an incredible base for us to work from, with assets that push us to go beyond ice cream snacks”, said Pierre-André Térisse, Executive Vice-President for Danone’s Africa division.\textsuperscript{27}
\end{itemize}
Senegal, where milk powder has for a long time arrived in the port of Dakar and represents much of the consumption of milk in the country, is home to all the major firms:

// Sodiaal has been in partnership with Kirene since 2005 to sell local milk and reconstituted milk (Candia UHT milk).

// Lactalis is in a partnership with Meroueh and sells French brands and Laicran milk powder.

// In 2008, Danone acquired 25% of Laiterie du Berger, which had achieved great success with its yogurt product Dolima, made from local milk. Since 2014, it has added as much as 50% of imported milk powder to meet demand.

// Glanbia is in a partnership with Satrec to distribute milk powder and yogurt.

// Nestlé distributes Gloria evaporated milk.

// Arla Senegal SA, operating through the Attieh Group’s Agroline network, has a ‘hub’ that is to serve as a platform to expand to Mauritania and Mali.

In Burkina Faso, where most of the milk sold comes in the form of milk powder and other dairy products imported through the ports in Ivory Coast or Ghana, European dairy companies have not (yet) invested directly on site. But in 2015, Arla discretely commissioned a study on the possibility of setting up industrialised processing facilities for local milk, to take the place of the micro-dairies already in existence, which sparked an outcry among producers as soon as they identified the sponsors of the study.

Following the failure of projects to set up public dairies in Bobo-Dioulasso and Ouagadougou (Soprolait) since the 1980s, the Union of micro-dairies, WUPB, remains wary of the authorities’ constant efforts to develop large dairies near major cities, to the detriment of the local micro-dairies. It was an alleged case of ‘land-grabbing’ intended to set up herds of ‘exotic’ cows for intensive production. On 30 April 2016, during National Farmers’ Day celebrations in Tenkodogo, Mamadou Cissokho, Honorary President of ROPPA noted that: “The government is not here to set up dairies. That is not its job. It must ban imports from outside the ECOWAS region. That is its job.”

The public dairy Fada-Ngouma only processes local milk into fresh milk and yoghurt, but it operates below its capacity of a potential 3 000 litres/day and is looking for partners. Fada, a micro-dairy producing only 200 litres a day, works well.

In 2015, the EU exported to Nigeria 22 613 tons of skimmed milk powder from F, NL, D, IRL, B, and PL, among others, and 27 757 tons of whole milk powder from NL, DK, IRL, S, D and so on.
### The European Dairy Industry’s Ambitions

#### European Company - West African Company (Brand - Type of Dairy Product)

<table>
<thead>
<tr>
<th>European Company</th>
<th>West African Company</th>
<th>Brand</th>
<th>Type of Dairy Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sodiaal</td>
<td>Tiviski</td>
<td>Candia</td>
<td>UHT milk</td>
</tr>
<tr>
<td>Sodiaal</td>
<td>Kirène</td>
<td>Candia</td>
<td>UHT milk</td>
</tr>
<tr>
<td>Lactalis</td>
<td>Meroueh</td>
<td>Laicra</td>
<td>Powder</td>
</tr>
<tr>
<td>Lactalis</td>
<td>ISPEL</td>
<td>Bridel</td>
<td>UHT milk</td>
</tr>
<tr>
<td>Danone</td>
<td>LDB</td>
<td>Dolima</td>
<td>Yogurt</td>
</tr>
<tr>
<td>Glanbia</td>
<td>Satrec</td>
<td>Vitalai</td>
<td>Powder, Ardo, Yogurt, Bestlait, Powder</td>
</tr>
<tr>
<td>Glanbia</td>
<td>Satrec</td>
<td>Vitalai</td>
<td>Powder, Yogurt, Bestlait, Powder</td>
</tr>
<tr>
<td>Sodiaal</td>
<td>Eurolait</td>
<td>Candia</td>
<td>UHT milk</td>
</tr>
<tr>
<td>Aria</td>
<td>Mata Holdings</td>
<td>Dano</td>
<td>Powder</td>
</tr>
<tr>
<td>Aria</td>
<td></td>
<td>Aria</td>
<td>(Fan Milk, Ice Cream)</td>
</tr>
<tr>
<td>Danone</td>
<td>Abraaj</td>
<td>Laitfr.</td>
<td>Yogurt, Powder</td>
</tr>
<tr>
<td>Glanbia</td>
<td>Sicoma</td>
<td>Vivalai</td>
<td>Powder</td>
</tr>
<tr>
<td>Glanbia</td>
<td>PZ Cussons</td>
<td>Nutricima, Powder</td>
<td></td>
</tr>
<tr>
<td>Friesland Campina</td>
<td>Wamco Nigéria</td>
<td>Peak</td>
<td>Powder</td>
</tr>
<tr>
<td>Nestlé</td>
<td></td>
<td>Nido</td>
<td>Powder, Gloria, Condensed</td>
</tr>
<tr>
<td>Danone</td>
<td>Abraaj</td>
<td>Fan Milk, Ice Cream</td>
<td></td>
</tr>
<tr>
<td>Glanbia</td>
<td>Sicoma</td>
<td>Vivalai</td>
<td>Powder</td>
</tr>
<tr>
<td>Glanbia</td>
<td>PZ Cussons</td>
<td>Nutricima, Powder</td>
<td></td>
</tr>
<tr>
<td>Nestlé</td>
<td></td>
<td>Nido</td>
<td>Powder, Gloria, Condensed</td>
</tr>
<tr>
<td>Nestlé</td>
<td></td>
<td>Nido</td>
<td>Powder, Gloria, Condensed</td>
</tr>
</tbody>
</table>

* Company collecting local milk

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* Example: Sodiaal - Eurolait (Candia - UHT Milk)

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The European dairy industry’s ambitious plans for West Africa

The trend has been noteworthy in recent years. West Africa is of great interest to European food companies. During his visit to the Ivory Coast in late April 2016, the leader of the French Employers’ Federation (MEDEF) delivered a clear message: “Ivorian agriculture is an Eldorado for the French agri-food industry... The strategy essentially consists of hunting in packs and setting up French subsidiaries sustainably”, says the leader of MEDEF”.

The European dairy industry’s ambitions for West Africa

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Date created on</th>
<th>Capacity (l ME/d)*</th>
<th>Collection local milk</th>
<th>Main dairy products</th>
<th>Linked with European company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laiterie du Berger</td>
<td>Senegal</td>
<td>2006</td>
<td>15 000</td>
<td>yes</td>
<td>yogurt, dégué*, thia<em>ry</em> *yogurt-based dessert</td>
<td>Daneene</td>
</tr>
<tr>
<td>Kirène</td>
<td>Senegal</td>
<td>2005</td>
<td>10 000</td>
<td>yes</td>
<td>UHT milk</td>
<td>Sodiaal</td>
</tr>
<tr>
<td>Satrec</td>
<td>Senegal</td>
<td>1992</td>
<td>—</td>
<td>no</td>
<td>yogurt, milk powder</td>
<td>Glanbia</td>
</tr>
<tr>
<td>Arla Senegal</td>
<td>Senegal</td>
<td>2015/2016</td>
<td>5 000 tons/year</td>
<td>no</td>
<td>Dano milk</td>
<td>Arla</td>
</tr>
<tr>
<td>Malilait</td>
<td>Mali</td>
<td>1994</td>
<td>60 000</td>
<td>yes</td>
<td>fromage blanc, pasteurised milk, yogurt</td>
<td>Lactalis</td>
</tr>
<tr>
<td>Eurolait</td>
<td>Mali</td>
<td>2005</td>
<td>20 000</td>
<td>yes</td>
<td>fromage blanc, pasteurised milk, yogurt</td>
<td>Sodiaal</td>
</tr>
<tr>
<td>Sicoma</td>
<td>Mali</td>
<td>2000</td>
<td>7 to 10 000 tons of milk powder/year</td>
<td>no</td>
<td>milk powder</td>
<td>Glanbia</td>
</tr>
<tr>
<td>Disnepal</td>
<td>Mali, Burkina Faso</td>
<td>2004</td>
<td>—</td>
<td>no</td>
<td>Incolac milk powder</td>
<td>Belgomilk</td>
</tr>
<tr>
<td>Tiviski</td>
<td>Mauritania</td>
<td>1987</td>
<td>30 000</td>
<td>yes</td>
<td>UHT and pasteurised milk, yogurt, cheese</td>
<td>Sodiaal</td>
</tr>
<tr>
<td>Eurolait</td>
<td>Ivory Coast</td>
<td>—</td>
<td>40 000</td>
<td>yes</td>
<td>UHT milk, yogurt</td>
<td>Sodiaal</td>
</tr>
<tr>
<td>Olam</td>
<td>Ivory Coast</td>
<td>2014</td>
<td>—</td>
<td>yes</td>
<td>condensed milk, milk powder / Pearl milk</td>
<td>Friesland Campina</td>
</tr>
<tr>
<td>Mata Holding</td>
<td>Ivory Coast</td>
<td>2013/2015</td>
<td>2 000 tons/year</td>
<td>no</td>
<td>Dano milk</td>
<td>Arla</td>
</tr>
<tr>
<td>Nestlé</td>
<td>Ghana</td>
<td>1957</td>
<td>—</td>
<td>no</td>
<td>evaporated and condensed milk, milk powder</td>
<td>Nestlé</td>
</tr>
<tr>
<td>Fan Milk</td>
<td>Nigeria + 5</td>
<td>2015</td>
<td>—</td>
<td>no</td>
<td>ice cream</td>
<td>Daneene</td>
</tr>
<tr>
<td>Sicoma</td>
<td>Togo</td>
<td>2000</td>
<td>7 to 10 000 tons of milk powder/year</td>
<td>no</td>
<td>milk powder</td>
<td>Glanbia</td>
</tr>
<tr>
<td>Wamco</td>
<td>Nigeria</td>
<td>1954 and then 2015</td>
<td>—</td>
<td>yes</td>
<td>milk powder</td>
<td>Friesland Campina</td>
</tr>
</tbody>
</table>

(*) actual production is sometimes much lower
“Actors from industrialised countries will be able to take advantage of the imbalance between supply and demand in developing countries to ensure their own growth”.

In its ‘Sodiaal 2020’ report, Sodiaal is explicit: “Actors from industrialised countries will be able to take advantage of the imbalance between supply and demand in developing countries to ensure their own growth”. It is a question of “anticipating market developments by preempting new areas. The merger and acquisition strategy is today undoubtedly at the very heart of the strategy of all major groups.”

According to Emmanuel Faber (CEO of Danone), “Africa is the continent of the future. Today, we are investing in the continent as we did in Asia 15 years ago.”

Euocolait said during its 2013 General Assembly that “there will be a considerable potential demand for infant formula in Africa, where the number of babies and infants is likely to grow rapidly.”

While it cannot be denied that the European dairy industry has its eyes set firmly on West Africa, particularly when considering the increase in investment in recent years, such investments have remained moderate. It seems appropriate that caution should be exercised when considering the volatility of milk prices worldwide, the pressures on the West African dairy market, and geopolitical uncertainty.

One of the main issues is to ascertain what the role of local chains of production and processing will be in the future. Will European companies invest in the processing of local milk as it is suggested in their communication plans and in their approach to social responsibility, or will they favour on-site use of their growing European surpluses? Most of them try their hand at both.

One of the main issues is to ascertain what the role of local chains of production and processing will be in the future.

The express wish –not always fulfilled– of most West African governments to develop the local industries came up against the major price differences between local milk and imported milk. In Burkina Faso, for example, a litre of local milk costs about 650 CFA francs per litre, whereas reconstituted...
milk only costs 225 CFA francs. Even if producers are paid an appropriate price for local milk (about 350 CFA francs per litre), they are still unable to compete with imported milk, especially because imported milk labelled as ‘Burkina milk’ is allowed to be sold. The drop in milk powder prices since 2015 thus poses a clear danger to local industries.

In the coming years, West Africa will not be able to produce enough milk to meet the growing demand for dairy products to match population growth and increase urban concentration. Imports and local production are forced to coexist, yet the interests of African producers are not the same as those of European industrial manufacturers.

Multinationals are operating in the long term and keeping track of the local milk market.

During the period in which global milk prices peaked in 2013-2014, before the end of the quota system, local milk in Africa had become very attractive and much sought-after, which led to competition between milk multinationals to mark their territory. Whereas European and global overproduction can be said to have probably shifted priorities since the end of the quota system—the African market is here first and foremost to take on European surpluses—multinationals are operating in the long term and keeping track of the local milk market, by developing their ability to process European milk powder on site.

When you have local initiatives such as Laiterie du Berger in Richard Toll, Senegal, which become successful selling yogurt made from local agro-pastoral milk and then reach a point where they can no longer meet demand, what happens is that Danone takes an interest and acquires a 25% stake in the dairy which now uses 30% or even 50% of Danone milk powder to produce Dolima yogurt.

In 2014, Nestlé developed a mobile modular plant intended for Africa to process milk powder at a cost 50% lower than that of a normal plant. It is, as Nestle says, “a fast, flexible and cheap way to penetrate markets,” as well as a less risky investment.

Arla has done something similar: in partnership with Mata Holdings (through a joint venture entered into in 2013), in 2015 it developed in Ivory Coast “a new mobile packaging station which operates from three 40-foot containers powered by solar panels to ensure a 12-hour production cycle, under controlled temperature conditions. This plant can process an annual 2,000 tons of milk powder, can supply 8 million litres of milk to the market, and is considered a low-cost way to leverage the massive demand for milk in Africa.” The development of such low-cost units by Arla and Nestlé decreases the financial risk undertaken by companies.
Arla has big ambitions for West Africa, where it intends to increase its revenues fivefold by 2020. Arla has big ambitions for West Africa, where it intends to increase its revenues fivefold by 2020. With over 12,700 producers (Denmark, Sweden, Great Britain, Germany, Belgium, Luxembourg and the Netherlands) that will produce an additional 1 million litres a year, it seeks to increase its revenues fivefold in the region by 2020 to EUR 460 million through its partnerships in Nigeria and Senegal. In Nigeria, Arla Dairy Products LFTZ Enterprise wishes to triple its turnover, from EUR 80 million at present to EUR 240 million by 2020.

Danone is in a strong position. Last year, it created the ‘danone communities’ fund and set up a hub in Africa: “This new multi-sector hub has been set up to accelerate Danone’s development in this strategic region”, said Danone, which for the time being is more focused on the North Africa and Southern Africa markets, where there is perhaps more purchasing power. Fan Milk, which only processes imported raw materials, and Laiterie du Berger, operating from mixed supply, will be Danone’s platform for conducting business in the region. According to Emmanuel Faber, “Africa is a major focus of expansion for Danone”.

FrieslandCampina has its eyes set on Nigeria, which could, according to the Chairman of FCW “become a world leader in milk production in the next few years”. But with local milk costs in 2015 at more than twice the price of imported milk, the country is seen primarily as a destination for milk powder exports.

It is not only price trends but the strategies of competitors that will influence the firms’ investments, with the growing West African demand remaining a strong indicator.

One of the ways to cope with demand while relying on local production is to create large industrialised farms near towns and cities. That is what Danone did in Egypt, where it built a factory with capacity for 2,500 cows, fulfilling 40% of Egyptian demand. This does not seem to be the method of choice in West Africa for the time being, but it does exist and may come to be applied if global prices were to rise.
Currently, everything contributes towards increased exports of dairy products from major European firms to West Africa:

// A sharp increase in the population of West Africa envisaged in the coming decades,

// Large and ever-increasing quantities of surplus milk within the EU since the end of the milk quota system, although nothing is being done to improve the system in place,

// Rock-bottom milk prices worldwide,

// West African agro-pastoral milk currently costs significantly more than imported milk powder,

// The impending signature of EPAs which would put a 5% cap on customs duties applicable to dairy products from Europe,

// West African governments prioritising low-priced supply for the urban poor,

// Countless restrictions being applied on development of agro-pastoral dairies to supply towns and cities,

// Global warming which may lessen the potential for production in West Africa.

// ...

And yet other factors contribute to the increase of local production:

// A willingness displayed by a majority of West African governments to bolster local production chains,

// A willingness by African producers and their organisations to boost production and local processing,

// The social responsibility of European firms seeking to show that they promote local development,

// Competition between European firms to establish themselves in local industries, staking their money on a future where markets will be more strained and will have higher prices.
The potential yield increase of African cows.

These two trends are not necessarily contradictory since even if local production is developed, it would still not be enough to meet the growing demand of the population in West Africa. But if nothing is done in Europe to control production and also if the global price of milk remains as low as at present, it will be difficult to develop local production.

The major European dairy companies are preparing for all eventualities. They are setting up their business in West Africa to repackage/distribute milk powder as well as processing local milk.

The EU dairy and trade policies right now serve the interests of dairy firms rather than the interests of the producers and taxpayers/consumers.

As we have seen, whether in Europe or West Africa, milk producers are forced into an impossible and absurd situation. On the one hand, the EU’s deregulation of the dairy industry leads to very low prices that drive family farms, in particular, out of business, the very same that sustain rural life and add value to grassland regions used for milk production. On the other, West African producers have limited access to their local market because of the dumping of imports and large European companies getting their hands on the market, anticipating future growth.

Milk is a product like no other. Its nutritional, economic, social and cultural role in pastoral and agro-pastoral life deserves real regulation through public policy. Despite the pressures and restrictions already mentioned, there is a real potential to develop milk production in West Africa.

The question remains, as in the case of Europe, as to which dairy production model to implement. Should we prioritise pasturceland for grazing and pastoralism as well as the micro-dairies linked to it? Or should we instead develop milk factory farms on the outskirts of cities by reproducing a model from the North with very negative features, which does without farmers and grazing?

Could the rural population, which still represents more than 50% of West Africans and prefers to live and work in the country rather than emigrate to Europe, have more weight in decision-making?

Will the Nigerian government resist EU pressure and refuse to sign the EPA? If so, will the other West African governments refuse the establishment of a partial EPA with them?

There is a real potential to develop milk production in West Africa.
The challenge for West Africans and their governments is to regain control of the regulations so that they do not hinder the development of agro-pastoral production.

To move beyond this impasse, and not leave European and African farmers in the hands of the dairy industry, the EU can take action by:

- Aligning its trade policy with the ‘development’ goals for Africa; this entails the non-implementation of the economic ‘partnership’ agreements, which will favour European dairy firms rather than local family farmers,

- Regulating milk production to prevent structural surpluses and ensuring producer prices are sufficient to cover their production costs,

- Stop industrialised production in large factory farms,

- Promoting means of production that prioritise permanent grasslands for grazing,

- West Africa can act by:

  - Rejecting EPAs and establishing tariffs and duties on milk powder that are sufficiently high and varied, as requested by ROPPA. Using revenue to bolster the development of local dairies (infrastructure, electricity, processing, and so on)

  - Improving the yield of herds without allowing large factory farms take over with their exotic cow breeds,

  - Banning imported dairy products from having local brand names or logos,

- Investing in processing and the promotion of agro-pastoral local milk, including in schools, and informing the public about the superior nutritional value and taste of local milk,

- Fostering the development of producer organisations and encouraging dialogue between all stakeholders within dairy production,

- Fully implementing the International Code of Marketing of Breast-milk Substitutes so that large dairy firms are not allowed to undermine breastfeeding and promote their milk powder.

Even if these measures are adopted, given the increase in population and weak local supply, milk powder imports will continue to arrive for some time. The challenge for West Africans and their governments is to regain control of the regulations so that they do not hinder the development of agro-pastoral production.

“First and foremost, the countries where a sharp increase in consumption has been recorded should be the ones to produce milk to meet their needs, including through investments from large foreign groups. This raises the question of the distribution of margins throughout the value chain.”

43 / From the conclusions of the research : ‘Dynamique des bassins laitiers entre mondialisation et territorialisation’ - collective work - Voies lactées - 2015
To find out more, go to:

- Afrique de l’Ouest : comment développer la filière du lait local (West Africa: How to develop the local milk industry) – Défis Sud – SOS Faim – March/April 2016
- Les Accords de partenariat économique (APE) de plus en plus contestés (The increasingly contested Economic Partnership Agreements (EPAs)) – Momagri – http://www.momagri.org/
- Dynamique des bassins laitiers entre mondialisation et territorialisation (Dynamic dairy basins between globalisation and regionalisation) – Collective Work – Voies lactées – 2015

- The evolving EU-Africa dairy trade: EU corporate responses to milk production quota abolition – Agritrade – Special Report September 2014
- Nestlé to roll out modular factory system in Africa – Agritrade – August 2014
- Europe laitière (Dairy Europe) – André Pfimlin – Editions France Agricole – 2010
- Chances et menaces du nouveau programme laitier du Burkina Faso (Opportunities and threats of the new dairy plan in Burkina Faso) – BurkinaLait – 2010
- Agriculture familiale et production laitière : menaces et enjeux (Family farming and milk production: Threats and Challenges) – Oxfam Solidarity Belgium – 2008
- Ces accords que Bruxelles impose à l’Afrique (The agreements that Brussels imposes on Africa) – R. M. Jennar – Le Monde Diplomatique – February 2005