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At this year's EDA World Dairy Summit again representatives of the whole European dairy industry took part. Front row from left: EDA President Michel Nalet, moderator Kevin Bellamy (Rabobank) and Müller Group CEO Ronald Kers (photo: IDM)

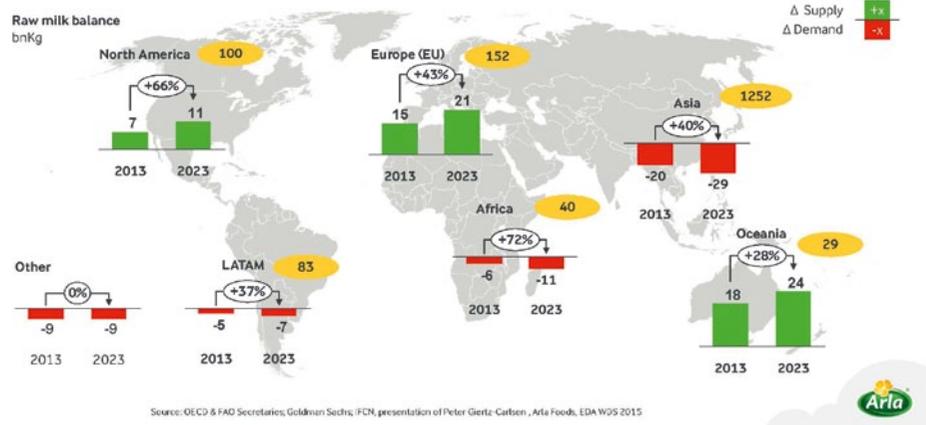
Don't be afraid of the milk!

EDA World Dairy Summit 2015 in Edinburgh

Focusing on factors for future success of the European dairy industry, this year's World Dairy Summit held by European Dairy Association (EDA) in Edinburgh on 16 October was meant to look ahead to a common strategy for the industry amidst an "incredible cocktail made up from the end of the milk quotas and the actual problems with exports and prices", said EDA President Michel Nalet, Lactalis.

Given the extremely different line-up of European dairy companies, market strategies and views on upcoming developments varied a lot among the six speakers that were nominated for the WDS 2015. But they all agreed that the future market opportunities lie in exports and equally in the European Single Market. According to David Dobbin, Chairman of Dairy UK, the industry now needs to tackle under-consumption (or over-supply, just how one is interpreting the matter) and get back to better prices by market-led innovation. Dobbin

Long term growth prospects for milk are solid Global supply and demand imbalance is increasing



illustrated the seriousness of the situation by stating that the EU represents one fourth of global milk production and a 4% growth of its milk base was equal to a 30% rise of NZ milk production. The industry needs to find markets for this extra milk as Russia won't

be back to buy European dairy products and China's imports would remain on a relatively low level.

How much more milk?

During the discussion, there was quite a disagreement between the industry representatives and the EU Commission on how big the growth of the European milk pool will be. Pointing out to the new EU Dairy Market Outlook due for 2nd December, the future was pictured somewhat rosy by Dr. Joost Korte, Deputy Director General for Agricultural and Rural Development at the European Commission. According to Brussel's view, milk production will grow at a CAGR of 0.8 percent until 2025 while consumption will grow by 2.1% in average. This was highly disputed by the auditorium as the dairy industry believes more in a 2 percent growth p.a. of production over the next years.

"Don't be afraid of the milk, take it as an opportunity" said Peter Giørtz-Carlsen from Arla Foods.



Presented their views at the EDA WDS (from left): Sil van der Ploeg (Meggie), Dr. Joost Korte (EU Commission), Peter Giørtz-Carlsen (Arla Foods), Robert Graham (Graham's Dairy), Ronald Kers (Müller) (photo: IDM)



Peter Giørtz-Carlsen from Arla Foods: Don't be afraid of the milk, take it as an opportunity (photo: IDM)

However, the future will be only positive if the industry will succeed in a step change in innovation, he said. The European dairy industry was selling quality and heritage (Nalet) and must now add more value to its products setting on global trends like sustainability, health and naturalness (Giørtz-Carlsen).

“Farmers aren't left in the rain”

Korte said that the Commission keeps on refusing to increase the intervention price as there can't be any incentives for ever more milk production. But the EU would not leave the dairy farmers in the rain, he said. In EU average, dairy farmers make 42% of their income from direct payments, and there was the safety net, Korte stressed, there are two new PSA schemes, there's the Milk Package, the MMO and there are rural development aids, promotion activities and the €100m school milk scheme. Most recently adopted was the €500m special aid package, Korte called it the “Hogan Package”, directly addressing dairy and pig farmers' needs. One should not exaggerate the current milk price situation, Korte said: the decline of milk prices is 12% compared to the average of the past 5 years – only if compared to 2013/14 the decline stands at 40%.

Volatility

When the discussion focused on volatility, Paul Vernon, CEO of Glanbia Cheese, simply stated that one cannot predict the future and that volatility was here to stay. In his view, producer margins will



Kevin Bellamy, Rabobank: We see the fluctuation of the oil price, we see the developments in China and Russia – let's face it: dairy has become part of a world market (photo: IDM)

become the new quota of the liberalized world market, everywhere, be it in the US, the EU, NZ or elsewhere, and milk production will naturally concentrate in favourable regions because of sustainability, supply issues and cost effectiveness. Korte informed the conference about a new Task Force that Commissioner Phil Hogan has established. Here, the EU Commission seeks counseling in order to develop new measures and instruments for better management of volatile markets.

Trade barriers

The EU Commission has ambitious plans for promoting exports, intends to pursue FTAs and to fight market entry barriers, claimed Dr. Korte. In this context he was attacked by Michel Nalet who criticized the low speed with which Brussels works on this matter. The milk quota has left way too much room for competitors, world milk production increased by 45% during the era of the EU quota regime,



Dr. Joost Korte: The Commission won't leave dairy farmers in the rain (photo: IDM)



Paul Vernon, Glanbia Cheese: Market places and competition have become global as well as consumers are global (photo: IDM)

and there was now serious danger that the EU dairy industry would get behind their competitors, Nalet said, pointing out to the recent TTP agreement. Korte parried by saying that TTP lacked ambition while TTIP would cover agriculture as well. However, the ambitions of the US are lower than those of the EU. With China, the EU will have to pursue WTO negotiations although those have stalled because of the US, China and India. But the EU has a special strength in China as the image of its dairy products is far better than that of NZ or US made produce, Korte noted.

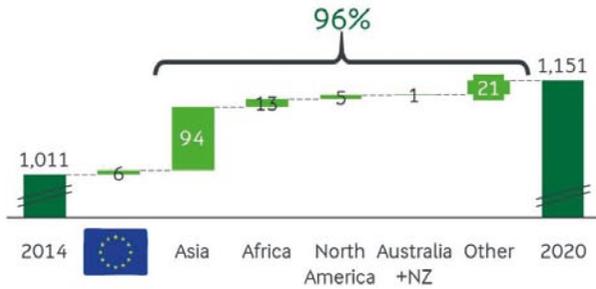
Different ways

In their presentations, the speakers outlined how their companies are going to master the future. Small Scottish fresh milk, butter and yogurt maker Graham's see regionality and brand as key while Arla Foods intends to be present worldwide. On the other hand, Glanbia Cheese focuses on joint product development with their customers for improving margins for both sides. The mid-sized private Meggle company concentrates, according to CEO Sil van der Ploeg, on “old” Europe and especially on the south-east region of Europe, both representing a total of 500m consumers, while the Müller Group sees no sense in a global presence. However, as CEO Ronald Kers said, Müller wants to excel in the markets by efficiency. Müller plans to get maximum value out of every drop of milk to drive value, innovation, brands and scale. Their high-performance model of a dairy group aims at replicating the multi-prod-

Demand growth outside EU is favourable

Within EU trends in health, naturalness & sustainability will drive growth

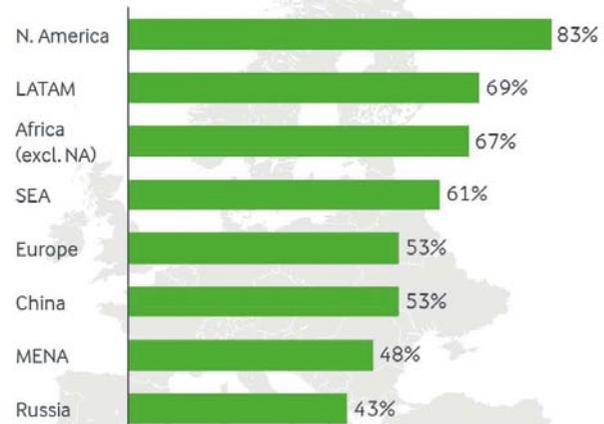
96% OF DEMAND GROWTH FROM OUTSIDE EU



Favourable growth conditions:

- Middle class emerging → rising discretionary incomes
- Improving diets & shift towards resource intensive foods
- High birth rates & young populations
- Urbanisation - growth of modern retailing & distribution

2014 DAIRY NPD WITH HEALTH CLAIMS



Source: OECD; Project team analysis; Innova.com – based on product and brand launches, Peter Giertz-Carlson, Arla Foods



uct portfolio approach they have established at the 2bn kg plant in Leppersdorf, Germany, at their other sites.

Interestingly, the concepts of the speakers for tackling market volatility resemble very

much the strategy of their companies: branding is seen as the key by Graham's, Arla bet on internationalization, Glanbia prefers hedging against risks, and for Müller its efficiency and increasing the portfolio beyond dairy.

All in all, the EDA World Dairy Summit succeeded in giving optimism to the industry by readjusting the perspectives – badly needed during these turbulent times! Author: Roland Sossna