

Dairy Policy for the 21st Century

EDA dairy policy conference 2015



EDA Dairy Policy Conference on 18 March in Brussels (photo: IDM)

The discussion at the EDA Dairy Policy Conference on 18 March in Brussels centered on market access, risk management and strategies for the future. As Michel Nalet, president of EDA (European Dairy Association)

told the forum, the EU dairy industry can be more than confident for the future market development – and the industry is not a follower of developments but rather a mover in the international context.



Michel Nalet, president of EDA: The dairy industry of Europe will not sit waiting for the competitors from NZ and the US (photo: IDM)

This statement was indirectly confirmed by someone from Fonterra who told the representatives of the EU dairy industry that his company would increase investment in Europe. Jais Valeur, Arla Foods, who moderated one of the discussions at the EDA conference, seemed all too pleased to hear this during a time when the European dairy industry feels a kind of crisis situation ...

Of course, there are some things to be considered when it comes to the future of the dairy industry. Following the headline of the conference "Dairy Policy for the 21st Century", Jim Nicholson who recently issued a draft report on prospects for the EU dairy sector to the European Parliament, identified the Milk Market Observatory (MMO) established by the EU Commission a year ago as an area for action. This observatory should be improved in a way that it can provide more timely and vital information to the EU dairy sector. In this context, Nicholson criticized a total of nine member states for not supplying information to the MMO. Replying, Tom Tynan, member of the cabinet of EU Farm Commissioner Phil Hogan, promised that the MMO will be improved to provide actual transmission of important market information. One representative from the Dutch dairy industry, however, warned that MMO could never come to predictions for future market development. MMO was rather a rearview mirror that allows for analysis of what has happened in the past ...

Risk management

Risk management is another important issue for farmers and processors alike. Prof Holger Thiele, ife, demanded a moderate increase of the safety net as an intervention price of just 20 Cent might in practice lead to milk prices below the 20c-threshold during crisis. However, the intervention price should not reflect variable or total costs of milk production as these vary just too much in Europe. Rather, an intervention should make sure that milk producers have enough liquidity to avoid that especially large farms step out of production during crises. But one should always remember that the intervention, said Jais Valeur, is not a guarantee for income but a measure for crisis.

Eckhard Heuser, CEO of the German dairy industry association MIV, warned EU policy makers from new experiments with the markets. He said that after two very good years for the



Jim Nicholson, member of the European Parliament, said that mistrust between producers and processors must be overcome (photo: IDM)

dairy sector the next 8 months might be a problem but markets would swing back again definitely. Policy had no means to influence markets, he added, unless it went back to the old system that ran out by the end of March. Jim Nicholson and Tom Tynan largely agreed by saying that there should be no return to the old times. Nicholson, however, added that something must be done for more effective risk management. "You can't run a market just relying on a draught in New Zealand", he said.

A milk price insurance like in the US does not offer a possible way for risk management, reported Dr. Jens Schaps, head of Directorate 3 in GD AGRI. The insurance premiums are much too high to be affordable without State subsidy. Thiele added that the US model for milk margin insurance would not be an option for Europe as the margins that are guaranteed in the States are usually much too high.

Holger Thiele again stressed the importance of the market for risk management. By mid-March, it was possible to hedge for a raw milk value (calculated from SMP and butter utilization) of 30.7 Cents in October. The dairy sector should much more make use of the dairy futures offered at the Paris and Frankfurt exchanges, Thiele recommended.

Great prospects

All speakers confirmed the favorable prospects for the EU dairy industry. Tynan reminded the audience that 760 million new consumers will live in Asia and Africa within the next 10 years and that 1.5 billion people will enter the middle-class worldwide until 2025. Tynan put his into perspective by highlighting that Russia has "only" 140 million inhabitants. Europe, Tynan added, is ready for expansion into global markets based on its huge potential for milk production. Prof Thiele estimates that EU dairy exports will grow to 23% of milk production in the bloc until 2022. Then, the EU will sell 499 million tons of dairy products to emerging markets (2017: 444m tons) and 293m tons to developed countries (2017: 237m tons). The EU, said Thiele, has benefitted from the world market and the correlation between EU and world market prices was 0.9 meaning that if the world market price increases by 1c, the EU milk price will grow by 0.8c. As a conclusion, the EU should definitely foster the competitiveness of its dairy sector, said

Thiele. Thiele also spoke about the weak Euro: the decrease of the exchange rate from 1.38 \$ to the € to a 1:1 relation would support the EU internal milk price by about 10 Cents, 50% of which is already "in the market", the rest is to follow soon.

Nicholson demanded that the EU should exploit all possible export options either by FTAs or by promotion. TTIP should not be the only focus, there were other important markets as well like Korea or Japan. Tynan replied by pointing out that the EU Commission has an offensive interest in agriculture and would guarantee high protection of EU standards in the ongoing FTA negotiations. The EU needs diversification of export destinations, said Tynan pointing out to the Russian embargo, and a more offensive export strategy. With this, he also highlighted the "excellent" paper EDA has compiled on EU policy recommendations in January 2015.

The EU milk pool will definitely continue to grow. Valeur reported from Denmark that farmers would increase their milk supply by 20% during 2016. This means that Arla Foods would have to find every year a new market equivalent to the size of Denmark to sell the additional milk to. He pointed out that this needs a lot of innovation, more communication about health aspects of milk and building a reputation for European milk products worldwide. According to Valeur, the industry should also talk more about sustainability as it is the license to work for the dairy sector ...



Discussing dairy policy for the 21st century (from left): Jais Valeur, Arla Foods, Prof Holger Thiele, University of Kiel, Dr. Jens Schaps, EU Commission (photo: IDM)

All in all, there is really no need to look to the past. The dairy industry of Europe will not sit waiting for the competitors and for NZ and the US to tell what the milk price is but rather be a global leader itself, as Michel Nalet put it at the EDA forum.