



DOSSIER

European dairy sector rising to all challenges

editorial



by **Rita Lemoine**,
Editor-in-chief

Robustness

Availability, quality, traceability and diversity are all assets that turn the Europe dairy market into an impregnable fortress in the face of imports, and appeal to international buyers. And with the lifting of the milk quotas, there is a golden opportunity for production to increase. But it's by no means a light work. Having to deal with world markets, Europe needs to address the challenge of prices volatility, with its share of crises that may set the countryside ablaze. Winning third countries over is another challenge that calls for removing customs, tariffs and sanitary barriers, which in turn calls for indispensable free trade agreements. But it's no easy dilemma for officials in the EU; for the Union is a mosaic of sovereign

countries with diverging political and economic visions; the proof of which being the successive changes brought to the common agricultural policy. Actors of the dairy industry want the agricultural exception stemming from the European competition law to be carved in marble, hence allowing the European Union to remain an agricultural power, in the context of an increasing mid-term world demand. At any rate, the high value of the European single market that buys up 87% of the European dairy supply provides the sector with an almost unshakable strength. One can hope it will walk the path of societal transformations that hold both dairy farmers and industrials accountable for the environment, animal wellbeing, nutritional values and animal's product's healthiness.

European dairy sector rising to all challenges

The European dairy sector needs to rise to a number of challenges if it is to extend its global presence while continuing to develop its internal market. The EDA congress held in Nice under the stewardship of ATLA, opens the debate.

agricultural output that can boast this stability. Its robustness is exemplary", stresses Vincent Chatellier, economist at French Agromic Research Institute INRA. "Over the past twenty years, variations in European milk deliveries have rarely exceeded 2 to 3%, whereas they were occasionally as high as 25% for cereals." This regularity is the result of a climate favourable to

milk production and the availability of feed-producing land.



With a total of 600,000 dairy farms, 12,000 processing facilities and 300,000 jobs, and producing 15% of all EU revenue,

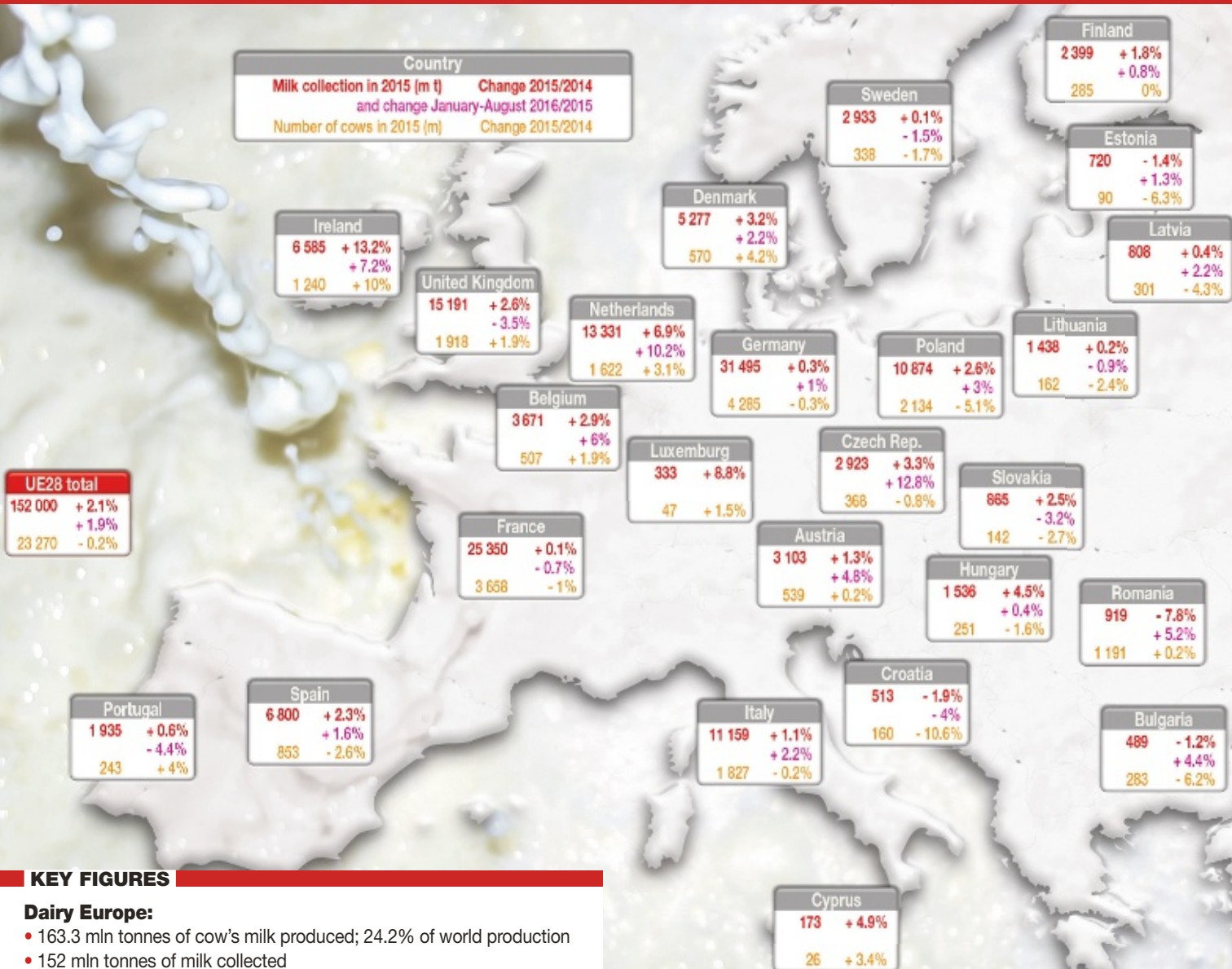
the European dairy sector is a heavyweight in the European Union's agricultural economy. Europe's dairy sector is also a major player in the global dairy economy. It produces nearly a quarter of the world's available milk, i.e. (163.3 billion litres of cow's milk), and holds a 27% market share in global trade (69.4 billion litres of milk equivalent): neck and neck with New Zealand. These figures reflect the sector's many strengths in terms of production and processing, the first and foremost of which is its capacity to supply milk of a consistent quality with very slight year-on-year variations in supply volumes.

"Milk production is the only type of European

A VERY STABLE PRODUCTION SYSTEM

The EU dairy sector's second asset is its internal market of 508 million people, whose consumption is three times higher than the global average. Eighty-seven percent of Europe's milk is consumed by EU countries. The diversity and quality of available products stimulate consumption, boosting business for top global companies, and propelling the global dairy sector forward. The INRA experts says that "all great global dairy companies are European, which is not the case for other agri-food industries". This is a major strong point of the European economy. "The European dairy sector is an impenetrable fortress- not because of trade barriers, but rather due to a consolidated system

Country	
Milk collection in 2015 (m t)	Change 2015/2014
and change January-August 2016/2015	
Number of cows in 2015 (m)	Change 2015/2014



KEY FIGURES

Dairy Europe:

- 163.3 mln tonnes of cow's milk produced; 24.2% of world production
- 152 mln tonnes of milk collected
- 13% exported and 87% consumed internally (in milk equivalents)
- 508 mln inhabitants; annual per capita consumption: milk 61.2 kg, butter 3.8 kg, cheese 18.3 kg
- 600,000 dairy farms
- 12,000 processing plants, with 300,000 employees
- 10 bln euros trade balance

Source: Atla

featuring regular production, product quality and range, and the harnessing of technology at farm and processing plant levels", Chatellier adds, also noting the very low level of dairy imports to the European Union. On the other hand, Benoît Rouyer, head of Economy and Territories at CNIEL, refers to "non-price competitiveness", which helps generate added value outside traditional quality references (geographical indications, organic labels). He says that Ireland is a prime example. A country which "through leading edge research and a sustainable environment for milk production has captured the interest of infant formula manufacturers". Not to be outdone, France's mastery of milk quality and processing technologies drive the regular

MILK ACCOUNTS FOR 15% OF EU AGRICULTURAL REVENUE.

growth of its exports and attract investors, as evidenced by the opening in September 2016 of the infant formula plant in Carhaix by China's Synutra (170 million investment), who has other large-scale projects in France. And these are only two examples.

POSITIVE FORECASTS FOR CHINA

Forecasts on exports to China need to be put into perspective to anticipate the future of European milk production. "China is establishing itself as the largest dairy market", confirms Christophe Lafougère, CEO of the research company Gira, in his address to the IDF congress in Rotterdam last October. ●●●

QUESTION FOR



Olivier Picot,
President of ATLA
(Association de
la transformation
laitière française),
the French Dairy
Association

How do you see the future of France in the European dairy sector ?

France is going through successive hiccups whose outcome I cannot predict. For instance, French milk prices were Europe's highest during dairy's greatest crisis, which we experienced over these last months. In France, milk prices have a social dimension, which makes sector efficiency optimisation impossible. However, we do pride ourselves on our mastery of production techniques and herd management, the world's top dairy companies... and the greatest brands: Isigny, Yoplait, Danone, Président, Candia, La vache qui rit, Paysan Breton, and Caprice des dieux... Not to mention our 50 PDOs and 8 PGIs. A real strength across the supply chain. The performance of the French dairy sector remains high despite the French propensity for 'war'. Our companies are fully committed to rise to tomorrow's challenges.

INTERVIEWED BY RITA LEMOINE



Vincent Chatellier,
Economist
at INRA

“The family farm model is an opportunity for Europe. Its preservation is a real challenge for the sector.”



Christophe Lafougère,
CEO of Gira

“With several pockets of growth, Europe remains the leading market for European dairy companies.”

N. BERTAND/INRA

R. LEMOINE

THEY SAID

... He stresses however that the product expectations of EU's top customers are changing. “Although our analysis shows that WMP imports will grow by 7% in the next five years, they will remain below 2014 figures. On the other hand, Chinese imports of cheese will reach 200,000 tons in five years. Six hundred new pizza parlours opened in China in 2016 alone.” There is also room for other value-added products such as liquid milk (1 billion litres in 2021) and cream (14% p.a. by 2021). “China has become the world's biggest bakery, with 80,000 points of sale”, he reports. A real challenge for the European Union which is not only self-sufficient but also has the capacity to increase its milk production: + 0.1% milk cows from 2016 to 2021, i.e. + 1.3 million tons of milk, according to Gira forecasts. A production capacity far superior to New Zealand's, remarks Vincent Chatellier. “New Zealand has doubled its production over the past fifteen years. It will not be able to achieve this feat again for environmental and cost reasons.”

EU Exports

	2015 (tonnes)	Annual growth 2015/2014	Growth Jan-Aug 2016/2015
Butter	135,364	+ 13%	+ 37%
Cheese	718,974	- 0.2%	+ 14%
SMP	684,274	+ 6%	- 18%
WMP	389,984	+ 0.1%	0%

Source: MMO

The European Union exports 13 % of milk collected. It is the world's top cheese exporter. Top destinations in 2016 : the USA, followed by Japan and Switzerland. For butter, Saudi Arabia leads, followed by the USA and Egypt.

Europe's share in global production growth 2016-2021

	2021 Forecast in tonnes	Annual growth from 2016 to 2021	Share of the European Union
Milk production	763,000,000 t	+ 2.7% = 93,000,000 t	8,500,000 t
Cheese			
- production	23,570,000 t	+ 1.9% = 2,100,000 t	633,000 t
- consumption	22,810,000 t	+ 2%	
Fat			
- production	11,800,000 t	+ 3.9% = 2,000,000 t	117,000 t
- consumption	11,570,000 t	+ 4.2%	

Source: Gira

In a prospective study, Gira estimates that global milk production will grow by 2.7% p.a. until 2021, with 59.1 million tonne in India (all milk types) and 8.5 million tonnes in the European Union. Cheese figures exclude and fat figures include India.

TRADE-OFF BETWEEN FAT AND PROTEIN

What about the USA? "Nowhere in sight in 2000, the USA currently accounts for 12% of world trade. They can rely on a huge market: Mexico, which has a population of 100 million- and growing, and which also supplies cheap labour", he warns. "In order to export, Europe will need to make a compromise between fat and protein", he adds. Industrial restructuring and investments in Europe in recent years point to more flexibility in managing these two categories. This is corroborated by Christophe Lafougère. "Fat will become the key to the market in the coming years", he declared at the IDF congress. In any event, cheese is still Europe's major export asset. With 719,000 tons exported, the EU is the undisputed leader in global cheese trade. Its 32.5% market share dwarfs its competitors. This enabled New Zealand (16.6% market share in global cheese trade) to grow its exports by 17.8% in 2015. Christophe Lafougère thinks that "the cheese market in the next five years will remain in Europe, where we have observed several growing consumption pockets: East European countries, catering, etc". In a prospective study on European dairy consumption from 2016 to 2021, he shows that cheese and cream still have growth potential. Fresh products are stabilising while the consumption of liquid milk continues to decline. Vincent Chatellier does not believe there will be growth in milk equivalents on the internal market, but envisages possibilities to create more added value. "The internal market is captive but saturated", he notes. It is also being questioned more and more by society.

PUTTING A VALUE OF THE SOCIETAL BEAUTY OF THE EUROPEAN PRODUCTION SYSTEM

In Germany, a lot of pressure is generated by animal welfare issues, in the Netherlands by manure management, in France by issues such as human ani-

QUESTIONS FOR



Michel Nalet,
EDA President

The President of EDA is optimistic about the future of the European dairy sector, but stresses that the European Union urgently needs to move forward on free trade agreements.

What is your view on Europe's dairy sector?

I would like to be positive like the European Trade Commissioner Cecilia Malström, whose tweets urge us all to "be optimistic about the great opportunities that trade agreements bring for the dairy sector". I truly hope she is right: it will take genius to grow milk deliveries by 7% in two years. And dairy companies have what it takes. EU export revenue reached a historic high in the first half of 2016. This shows that the

European dairy sector is still considered attractive worldwide.

Is this optimism unlimited?

There are certain limits. Several countries have recently erected non-tariff trade barriers, which lead to the EU increasing its collective communication budget in order to emphasise the quality of European products. We must also ensure that the fluidity of trade on the European single market is preserved. The origin labelling that nine member States have introduced with Brussels' blessing is a potential obstacle. In any event, I remain confident, because global demand is set to grow by 2% annually in the coming years. Europe's challenge is to urgently conclude free-trade agreements outside the WTO.

INTERVIEWED BY RITA LEMOINE

World dairy company ranking by turnover^(A) in USD billion

	Company	Country	2015	Change 2015/2014
1	Lactalis	FR	18.9	- 14%
2	Nestlé ^(B) , ^(C)	CH	15.2	- 17%
3	Fonterra ^(D)	NZ	14.3	- 24%
4	DFA	US	13.8	- 23%
5	Danone ^(E)	FR	12.3	- 17%
6	FrieslandCampina	NL	12.2	- 19%
7	Arla Foods	DK	11.4	- 19%
8	Yili	CN	9.6	+ 8%
9	Saputo ^(E)	CA	8.6	- 8%
10	Dean Foods ^(F)	US	8.1	- 15%
11	Mengniu	CN	7.8	- 4%
12	Meiji Dairies ^(E)	JP	5.9	- 5%
13	Müller ^(G)	DE	5.6	-
14	Sodiaal	FR	5.5	- 23%
15	DMK	DE	5.1	- 28%
16	Morinaga Milk Industry ^(E)	JP	5	- 8%
17	Schreiber ^(G)	US	5	-
18	Savencia	FR	4.9	- 20%
19	Agropur	CA	4.6	+ 9%
20	Megmilk Snow Brand ^(E) , ^(H)	JP	4.3	0
21	Glanbia Plc	IE	4.1	- 13%
22	Kraft Heinz	US	4.1	-
23	Land O'Lakes	US	4	- 22%
24	General Mills	US	3.7	0
25	GCMMF Amul	IN	3.6	+ 6%

Source: WDS2016

(A) Excluding Kerry, Unilever, PepsiCo and Mondelez. (B) Excluding infant formula. (C) Milk and ice cream operations perimeter redefined in 2013. (D) End of year in July. (E) End of year in March of following year. (F) All businesses. (G) Estimate. (H) Including fruit juice and infant formula.

mal relationships and ethics. Constraints are growing and solutions are costly, raising questions about the competitiveness of the European Union on the world market. Should export-specific supply chains be developed? Vincent Chatellier does not think so. "All countries will be caught up by these societal developments. Instead, let us focus on promoting the European model on the world markets, by capitalising on know-how, quality, traceability and our environment. Let us convince consumers that these values mean that, prices being equal, buying European products is the better option", he advocates. In his view, upstream marketing is becoming crucial. And there is more. "In order to export, Europe needs to adapt its products to the consumption habits of developing countries and connect its economy to demand in poor countries", Vincent Châtellier adds. A vast programme European companies are starting to take more seriously. In the meantime, they urge the European Commission to remove export barriers to enable sector growth.

RITA LEMOINE

INTERVIEW Phil Hogan, EU Commissioner for Agriculture

“We are united in diversity”

Overt the recent months, the European Commission has been continually adapting its response to the dairy crisis, emphasising that the CAP is an ever-evolving policy.



For the first time, the Commission is prepared to regulate milk production. Is this a change in policy? Is the Commission getting involved in dairy market management again?

This is not a change in policy. The Commission maintains the principles of market orientation it has followed for many years now. They consist in providing all sector stakeholders with the tools they need to register market signals, in order to ensure that their decisions are well-informed and in line with their business choices. The production reduction scheme is an exceptional measure put in place to deal with factors destabilising the market. It is not strictly speaking a regulatory mechanism. This is a voluntary measure. It is not meant to last nor to be repeated.

Has the American ‘Margin protection program’ inspired the Commission to make European producers more resilient to market vagaries?

Actually, the American margin protection programme does not protect the real margins of American farmers. It is a voluntary insurance scheme which can in some cases generate payments based on average national milk and feed prices. In its first two years of operation, it has generated net income for the American administration, as the premiums contributed by farmers joining the scheme have exceed payments despite difficult market conditions. There are structural differences between the EU and the USA

(the American dairy sector is more homogeneous than the EU’s, and feed costs account for a much larger proportion of the cost structure), but I am convinced that it is also in terms of policy type that the CAP targets the needs of European farmers better. I do not think that many European farmers would be ready to forego direct aid, rural development or market management measures in favour of access to a premium-paid insurance scheme such as the American margin protection program.

It was again necessary to derogate from competition legislation to allow the agricultural sector to weather the crisis. Should agricultural operations not benefit from a broader derogation system in the field of competition legislation?

The agricultural sector already enjoys a significant derogation from competition rules. This derogation is materialised in the EU’s “Milk Package”. It allows producer organisations to collectively negotiate the terms of contracts concluded with dairies. This collective negotiation can apply to up to 3.5% of the EU’s total milk production. This major derogation has been in force since 2012. It is up to producers to use this tool put at their disposal by Europe. It is available whatever the market situation. No need to wait for a crisis to use it. I have promised to evaluate its implementation and we will receive the report by the end of the year.



LIEVEN CREEMERS/UNION EUROPÉENNE

“THE COMMISSION MAINTAINS ITS MARKET ORIENTATION PRINCIPLES.”

Some dairy professionals fear that the CAP may be nationalised again on account of growing discrepancies in the enforcement of public policies in different European member states?

In the Union, we are ‘united in diversity’, which shows how

important it is to integrate different cultures while preserving our common heritage. This principle applies to the CAP through the principle of subsidiarity: the Union will only get involved when action at this level provides greater added value than decisions at national, regional or local levels.

What are the deadlines for the future CAP 2020, and where are we heading?

The CAP is an ever evolving policy, as is our society at large. We are of course busy devising a post-2020 framework. At this stage, all options remain open and none are dismissed out of hand. You can count on an announcement from me as soon as we have completed all the stages needed for the formulation of the CAP's future direction, taking into account all the aspects of such an extensive policy.

INTERVIEWED BY RITA LEMOINE

Arla emphasises the great value of the European single market

Arla CEO Peder Tuborgh considers the European Union and its trade barrier-free single market highly valuable assets. "They have given us the best possible opportunities for growing our businesses. This is so deeply anchored in our minds that we sometimes forget how lucky we are to have these assets. The result of the British Brexit referendum gives us serious reasons for concern. We hope that the result of the upcoming negotiations between the EU and the UK, which will have third country status after Brexit, will allow us to maintain the closest ties possible." Another breach in European single market unity mentioned by Arla's CEO was the rise of nationalism



Peder Tuborgh, CEO of Arla.

and protectionism in some EU member states. "Several member states are introducing mandatory origin labelling (in addition to PDOs and PGIs), which is not going to help us keep the single market intact. We are firmly opposed to these initiatives, which we believe will do nothing to benefit European farmers and will only make

KEY FIGURES

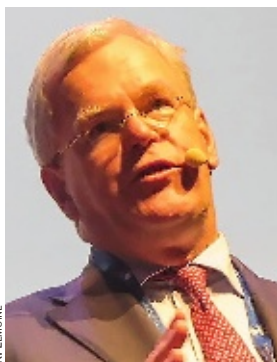
- Turnover: USD 11.4 billion in 2015
- Milk deliveries: 13.4 billion litres in 2015

food more expensive for consumers." Arla collects milk from 13,000 farmers in Germany, the United Kingdom, Sweden, Denmark and the Benelux countries. The cooperative has 75 locations in Europe: 32 in Denmark, 14 in Sweden, 14 in the United Kingdom, 10 in Germany, and 5 outside the Union (including Russia, Canada, USA and Egypt); as well as packaging facilities in numerous countries - such as Nigeria, Senegal, Ivory Coast and Bangladesh. RITA LEMOINE

FrieslandCampina banking on sustainable development

KEY FIGURES

- Turnover: USD 12.2 billion in 2015
- Milk deliveries: 12.5 billion litres in 2016



Roelof Joosten, CEO of FrieslandCampina.

"With a vision for 2020, and an annual investment line of 700 million euros, FrieslandCampina was established seven years ago. The cooperative's turnover increased by 40% between 2009 and 2015. At the same time, the premium paid to farmers grew by 400%", reports Frank van Ooijen,

Corporate Communication Director for nutrition, health and reputation. A war machine advancing relentlessly. The innovation centre built next to the university in Wageningen in 2013 reflects this ambition. With a total budget of 85 million euros, it employs 3/4 of the 544 individuals working in research. The other

research centre is located in Singapore. In the first half of 2016, FrieslandCampina increased its milk deliveries by 12 %, after an increase of 4 to 5% in 2015.

TACKLING THE PHOSPHATE PROBLEM

The cooperative — which accounts for 75% of Dutch output — is working with authorities to find a solution to the phosphate issue hampering the development of the country's milk production. Pending introduction of regulations compliant with European legislation — the Dutch government's quota system for phosphate allocations was rejected by the European Commission —, the state has earmarked 150 million euros for the development of manure digesters. Moreover, as part of a 300-million-euro fund, "green bonds" have been issued to enable milk producers to invest in sustainable development. Apart from working on this issue, the group is also boosting its marketing efforts with the "Nourishing by Nature" slogan. "We

have made it our mission to focus on our products' health and nutrition aspects; as well as on doing our best for both our cooperative members and for farmers in Asia and Africa, where we have set up development programmes and are investing in sustainable development for future generations", FrieslandCampina CEO Roelof Joosten explained at the IDF congress in Rotterdam last October. For instance: FrieslandCampina has just entered a joint venture with Groot Zeverth Vergisting, a company specialised in manure digestion. It will supply 8 million cubic metres of biogas to FrieslandCampina's drying facility in Borculo via a 9 km long pipeline. This amounts to a reduction of about 8,000 tonnes of CO₂, equivalent to the emissions of 3,500 farms. The cooperative is banking on "environmentally neutral growth" and is doing everything in its power to achieve this goal.

RITA LEMOINE

Sodiaal's big ambitions in step with markets

In its strategic programme “Sodiaal 2020”, France’s largest dairy cooperative clearly stated its intention of expanding into international markets. The group’s President Damien Lacombe explains that the strategy is not about limitless expansion, but rather about providing opportunities for expansion to interested co-op members, and within the limits of value created on global markets. “Every litre of milk produced must have a clearly identified outlet”, he summarises. To achieve this, France’s biggest cooperative group introduced quantity management in 2011 to prepare for the abolition of quotas. ‘A’ volumes (price on French and European markets) are the farmers’ benchmark and currently account for 90% of a co-op member’s income. ‘B’ volumes, designed for additional milk and paid on the basis of the butter-powder price, account for the remaining

10%. “However, the cooperative guarantees the purchase of 70% of milk at ‘A’ volume prices for farmers wanting to significantly augment production”, President Damien Lacombe emphasises. Volume C is a dissuasive price, as was the superlevy under the quota regime. “Our members file their ‘B’ volume requests between July and September. They can start planning their production development in January for the new dairy campaign which begins in March”, he adds. To enable them to grow, Sodiaal invests in products with the highest performance outside the European Union. “Our ambition is to achieve 20 % of our activity in global exports in 2020, against 10 % currently. Our main concern is managing milk flows from all our members while striving to optimise the milk equation in order to make the most of markets. Coordination and organisation are our strate-



Damien Lacombe, President of Sodiaal.

gy’s keywords”, stresses the President. A rationale which, according to Damien Lacombe, has enabled the cooperative to keep up with demand in 2016. While deliveries to the cooperative were down 2.5 % (from January to September 2016 on a like-for-like basis) in response to the glut in export

KEY FIGURES

- Turnover: USD 5.5 billion in 2015
- Milk deliveries: 4.7 billion litres in 2015

markets, farmers were paid the ‘A’ price for 90 % of their milk. Sodiaal’s adaptation to volatility does not stop there. While A, B and C quantity management is tempting other European cooperatives, Sodiaal is enticed by the margin-guarantee contracts introduced by Glanbia. The cooperative is currently trying out a similar formula. “We are testing a 3-year commitment to a B price with 80 farmers. We are also exploring the future market”, Damien Lacombe reports. He joins the French dairy sector in calling for the implementation of mutual funds co-financed by the European Union as part of the new CAP. **RITA LEMOINE**

Animal welfare at the heart of Hochland's strategy

In Germany, issues related to animal welfare and production methods are increasingly gaining ground—particularly at farm, but also at industry level. “Dairy industry stakeholders cannot hide behind health arguments and milk and dairy’s natural image. Our customers are asking for more”, emphasises Peter Stahl, President of the Hochland Board and of MIV, the German Dairy Association. This private cheese group takes animal welfare very seriously and has started working with German dairy farmers. “Sustainable development and animal welfare are part of our quality programme called ‘Milk

KEY FIGURES

- Turnover: 1.2 billion euros in 2015
- Over 4,200 employees in 11 production locations

for Hochland’. The Thünen institute provides scientific and technical support. All farmers supplying our Schonau dairy in Germany have received a questionnaire on animal welfare, human-animal relationships, and on the farmers’ own social, economic and environmental approaches to sustainable development. This study enables us to take stock of the current

situation. It will be completed by the end of this year.” The experts at the Thünen institute will provide an analysis and develop indicators for measuring sustainable development. Hochland’s goal is to establish constructive dialogue between the stakeholders of the dairy supply chain.

However, no one company, no matter how committed, can solve this problem on its own. “Many aspects of sustainable development need to be taken into account by the dairy sector as a whole. We are involved in a pilot project developed by MIV, entitled ‘Sustainable development and animal welfare’”,



Peter Stahl, President of Hochland Board and of MIV, the German Dairy Association.

reports Peter Stahl. Some thirty dairy companies are working together on this programme; several NGOs and retailers are also taking part. Work will start in the coming months.

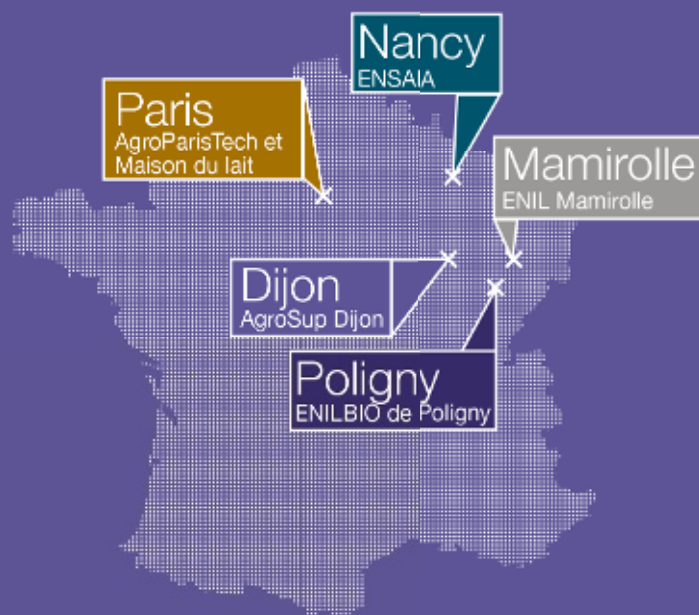
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Volatility calls for new measures

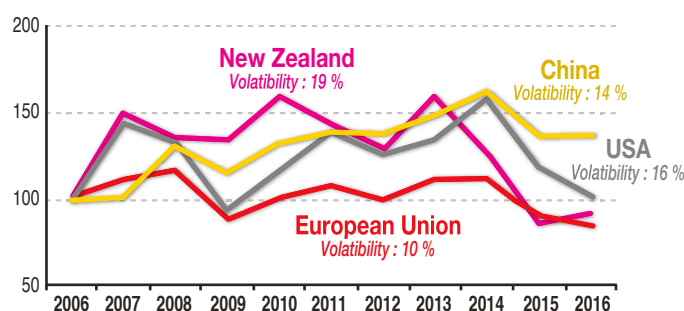
Faced with the crisis, European stakeholders wonder what tools to use to make the sector more resilient.

> According to Gira CEO Christophe Lafougère, “the level

of volatility will keep increasing in the years to come”. However, the phenomenon “will be less marked in the European Union thanks to a robust and dynamic internal market”. In response to the crisis, Brussels has intervened on several occasions, even going so far as to offer farmers money to temporarily limit production. “We cannot continue to stand in the way of structural change”, German Minister of Agriculture Christian Schmidt stated in his address to the annual convention of

Volatility in the world

2006-2016 milk prices excluding inflation (in local currency). Indexed base 100 in 2006.



Source: Gira

According to the Gira research firm, annual milk prices excluding inflation (in local currency) have oscillated between 25% and 30% since 2006 (base 100) in New Zealand, the USA and China. At 10%, volatility was less marked in the European Union, reaching 14% to 19% in the other countries.

the German dairy association (MIV) last October. Unlike some German Länder and France, who have lobbied for this measure since the beginning of the crisis, the German federal government was not in favour

as it believes that efficiency is achieved through action or liquidity support programmes. “The rules of the CAP change often due to the political complexity of the European Union. Member states find sharing a



Gérard Calbrix,
Atla

R. LEMOINE

HE SAID

“Europe now knows that it cannot completely opt out of market management.”

united strategic vision of global markets difficult, which is why support via public policy is problematic”, surmises Vincent Chatellier of INRA in Nantes. In any event, the Commission now knows that the system of decoupled direct aid does not work and that it cannot completely opt out of market management. Instead of reacting erratically, the Commission has embarked on a thorough review in order to make production more resilient to risk. One of the tools under review is the “Margin protection program”, an insurance scheme introduced as

QUESTIONS FOR



R. LEMOINE

Michel Dantin,
MEP

You advocate the recognition of agricultural specificity in competition policy. Is anybody listening?

The European Union will have to reconsider its position on the Marrakesh Agreement. Europe continues to defend the principle against all comers, while the USA, Brazil, India and China have long turned their backs on WTO agreements. I am campaigning for France and Germany to put the matter before the Council of Europe after their respective national elections. We need a political decision at the highest level to define the orientation of the new CAP. I have always advocated

the recognition of agricultural specificity in competition policy. This position has garnered the interest of Commissioner Phil Hogan and his DG for Agriculture. We are expecting their proposals in early 2017.

What other developments do you see for the new CAP?

The increasing complexity of the CAP thwarts any initiative by farmers, as it is designed on an obligation of means basis with very strict rules. If we do not revitalise the entrepreneurial process with a performance obligation,

European agriculture will lose its pioneer status. Naturally, societal concerns for the environment cannot be disregarded. However, we can trust farmers as far as that issue is concerned. If need be, we can ask them to return the aid money received if they fail to achieve their objectives. We must also create the conditions for collective thinking about availability and markets within solid inter-branch organisations. It is up to the public authorities to arbitrate in the event of a disagreement.

INTERVIEWED BY RITA LEMOINE

part of the American Farm Bill. According to Gérard Calbrix of Atla, using such a system in the EU presents two problems: firstly, the EU budget is annual and cannot accommodate an insurance fund, and secondly, insurance funds are inherently mono-product, which means

that direct aid would have to be re-coupled to fund the system. This would go against current practice, in place since 1992. Is this conceivable? "The decoupling system was adopted in order to comply with WTO requirements. However, the WTO is experiencing a stale-

mate, which gives us latitude to move towards re-coupling", says Gérard Calbrix. Commission experts are studying the question closely.

Currently, 36% of the European budget is spent on the CAP. What about the new CAP? "There will be a new CAP and

there will be a CAP budget", says MEP Michel Dantin. Despite all prevarications, reason will prevail. All countries in the world have agricultural policies, and our competitors are busy stepping up their strategic support to their agricultural and agri-food sectors." RITA LEMOINE

Glanbia offers liquidity

Following a 23% year-on-year increase in 2015, Glanbia farmers have produced 2 billion litres of milk in 2016-achieving a 5% increase on the previous year's figures. "We were aiming for 8%, but weather conditions and the price level have prevented us from reaching that growth target", explains Sean Molly, Strategy Director of Glanbia Ingredients Ireland (GII). The September milk price was €0.25/l, which included 1cent of aid granted by the cooperative. "It was a difficult year for our farmers, and the Board of Glanbia Co-operative decided to give all our cooperative members 1 to 2 cents of aid money per litre of milk starting last January." The decision is reviewed monthly at this time of crisis. A 5-year, 100-million-dollar fund set

up last April is another tool used to mitigate volatility. Its purpose is to give producers more liquidity. "When the price falls below €0.24/l, a producer receives 2 cents per litre to be repaid when the price exceeds €0.30/l. A quarter of our members have used this system. New amounts will be determined in early 2017."

SECURING PRODUCTION

Milk Flex, a 100-million-dollar investment fund set up with Rabobank and NTMA (National Treasury Management Agency) among others, is another tool launched in 2016. It offers new loan and reimbursement instruments pegged at the price of milk in order to reduce the burden on farmers when the milk price is down. There are also the 3-year fixed-price



Sean Molly, Strategy Director
Glanbia Ingredients Ireland.

contracts set up in 2011. Eight programmes have been implemented since then, with milk prices of €0.29-0.30/l in the case of the latest two. "Forty percent of our farmers are involved in these programmes (about 2,000 farms), securing 30% of their production." These contracts provide a link between

KEY FIGURES

Glanbia plc

- Turnover: USD 4.1 billion in 2015
- Milk deliveries: 3.2 billion litres (+ 5% vs 2015)

farmers and Glanbia, and their customers. "We would like to extend this tool and make everyone benefit from volatility management- producers and customers alike." Despite the crisis, Glanbia is committed to reaching its members' 2020 growth objective of 60% on 2008 figures. "We are on the right track. Having achieved 27% growth in two years, we are almost half way there."

RITA LEMOINE

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