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Dairy business

The dairy supply chain revisited

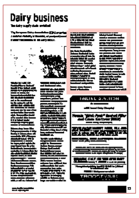
The **European Dairy Association** (EDA) organised a seminar recently, in Brussels, on perspectives of market mechanisms in the dairy sector.

Opening the event, EDA President Werner Buck said the aim of the seminar was to have an open and constructive debate on coping with increased price volatility in a less regulated environment and on the ways forward for the sector. He said the extreme price volatility that had occurred in the last two years was new for most of the partners in the dairy supply chain. However, they should all be proud of dairy, because it is an innovative and technology oriented sector, in which co-operation is key.

Estonian dairy farmer Hillar Pulk gave an overview of dairy farming in Estonia, where milk accounts for 32% of the gross agricultural output. 40% of the production is destined for export, which explains the major impact from the price fluctuations in Europe on dairy production in Estonia. While the dairy sector is efficient, Estonia depends heavily on direct payments support – statistics illustrate that Estonia receives three times less support than the European average. Pulk believes that the survival of the Estonian farmer requires a fair milk price, equal support in all 27 European member states, measures to face the crisis, as well as a balanced and reasonable national dairy and rural development policy.

Daniel Morrissey, from **Abbott Global Nutrition** (US) gave a food producer's perspective. Abbott purchases a wide array of dairy products, from commodities to highly specialised products. Morrissey said EU dairy ingredients are in general more expensive than US and Oceanian ingredients. In the search for the reduction of price volatility, strategic relationships can provide a natural hedge and improving price transparency for commoditised dairy ingredients is key. This last element represents a big difference between US and EU market pricing, the US pricing being much more transparent than the EU one.

The dairy supply chain in a deregulated market was the subject for **Fonterra** (New Zealand) General Manager Strategy Paul Campbell. Fonterra's farmer-owners have changed their views on volatility because of the extreme fluctuations occurring in 2007-2008. However, Fonterra's customers have a different view and he concludes that nearly everyone has been seeing increased price volatility in the dairy supply chain. Traditional approaches for managing volatility on their own are no longer appropriate or effective.



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To remain competitive with other food sources, it is crucial that a new market infrastructure is put in place and that robust risk management tools are developed across the dairy supply chain.

Arla Foods (Sweden) Vice Chairman Åke Hantoft took a co-operative view. At Arla, the milk price is both the result of the dairy's strategy – value added products, increase in Arla's earnings – and of global price drivers such as Fonterra's auctioning, the consumer prices and spot prices. Hantoft foresees increased price volatility in the years to come, which could lead to internal discussion of pricing policies.

Susanne Nüssel, Secretary General of **Verband der Bayerischen Privaten Milchwirtschaft** (Germany) looked at contractual relations between milk producers and dairies. Historically, long term contracts between producers and farmers were widespread in the dairy sector. Today, farmers and producers need to take into account the abolition of quotas and the regulation of quantities beyond 2015. The EU Commission needs to develop a policy framework in order to sustain the dairy sector's importance, by guaranteeing stable levels of income for milk producers and by enabling competitive structures throughout the value added supply chain. Milk producers need to be prepared for these crucial developments, she said. ■