



Dairy sector 'must stabilise prices to survive'

The European and global dairy sector must rein in price volatility in order to remain competitive, industry officials said last week.

The recent cycle of extreme price fluctuations was said to be damaging both the long-term prospects of farmers and processors - and must be curbed.

The views emerged at last week's Brussels seminar on the dairy supply chain, hosted by the *European Dairy Association* (EDA), a body representing EU dairy farmers, producer cooperatives and processors.

The meeting coincided with the latest get-together of the EU's High Level Group (HLG) on the dairy sector (see *DM*, No 1034, 04.02.10, p1).

Industrial buyers frustrated

Daniel Morrissey, director of global procurement at *Abbot Nutrition*, a multinational purchaser of dairy ingredients for medical nutrition products, gave a warning on dairy prices from the perspective of an industrial buyer.

Morrissey indicated that global milk price fluctuations were making dairy products increasingly unattractive for industrial buyers.

He warned that the EU was also putting itself at a competitive disadvantage through "inflexible" and "expensive" dairy supply.

"We want competitive, predictable pricing but it has been very volatile since 2007," Morrissey said, warning that milk was competing with a range of potential substitutes for use in nutritional and industrial products.

Morrissey lambasted the bulk of EU countries for failing to produce regular price data on a wide enough range of dairy products, indicating that they compared poorly with the *US Department of Agriculture* (USDA) on data transparency.

A delegate from New Zealand dairy co-op *Fonterra* agreed that the volatile milk market risked being boycotted by purchasers.

Sector lacking risk management tools

Paul Campbell, general manager (strategy) at *Fonterra*, told the seminar that the dairy supply chain needed to put its house in order and re-establish predictable pricing.

Recalling the recent erosion of public and commercial dairy stocks worldwide, he explained that globally the sector had few adequate risk management tools at its disposal.

He profiled various options for stabilising prices, indicating that price pooling, hedging on futures markets, and operating with lower



working capital could all help contribute to a 'managed supply chain' in the future.

Campbell also recalled the importance of transparent price tracking tools to keep farmers closer to the market.

Volatility 'choice'

EDA president Werner Buck told *Dairy Markets* that the volatility felt in the EU dairy sector was a result of a "political choice" to scale back support and bring the sector into line with unpredictable global markets.

He refused to blame actors higher up in the supply chain for depressing dairy prices, and would not support the idea of an EU-wide regulatory framework for dairy contracts, as has been discussed at the monthly meetings of the new HLG on Milk.

The EDA chief indicated nonetheless that longer-term fixed-price contracts between farmers and processors could help to rein in dairy price volatility.