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OPENING WORDS BY MINISTER SIRKKA-LIISA ANTTILA

Ladies and Gentlemen,

It is my great pleasure to give the opening address of today's Congress. I am very glad that this Congress is here in Finland and especially in my home county Häme.

The current discussion in the EU relates to the dairy reform. Another issue is the functioning of the food chain, and its balance power. So, I will discuss these points in my speech, but let me first say a few words about the dairy industry in Europe and in Nordic Countries.

The dairy industry is technologically dynamic, innovative, and at all levels in the hands of top professionals.

The European dairy industry has a turnover of 120 billion, representing 15% of the turnover of the total food and drink industry in Europe, and employs 400.000 people. The European dairy industry creates added value for raw milk. And it does this job well. According to the European Dairy Association, the value creation in the dairy chain is higher in Europe than in the U.S, New-Zealand and Australia.

Dairy business is a big industry in all respects: the European dairy industry's sales revenues of over 130 billion euros make it the second largest food manufacturing sector after meat processing. If we measure performance of the industry by the exports outside the EU, then dairy is the second biggest industry after 'spirits and liquors', with a value of exports of 5.5 billion euros.

A particular feature in the Nordic dairy industry is that it is highly concentrated: there are only a few operators per country. This means that the industry has already undergone a process of consolidation and has reached economies of scale. It must stay in a good shape to meet the challenges of the future.

The second Nordic feature is that co-operative model of dairies is a key issue: dairy farmers are not only producers but also owners, and they take part in the decision-making. In Finland 96% of the dairy producers belong to co-operatives.

Milk production is the cornerstone of Finnish agriculture, representing more than 40% of the return on agriculture.

The dairy industry is now in a good shape and ready to face future challenges. In fact, the dairy industry faces the global competition from every corner of the world each and every day. And it participates in global market with great success: as said above, it is the second biggest European export sector. So, the dairy industry is fully integrated to global competition, with outperforming success.

The dairy industry can be characterised by the words: *big and consolidated, dynamic, innovative, value creating*. And we all know that industries with such qualities will succeed and remain competitive also in the future.

Ladies and gentlemen,

Like I said, **the current dairy discussion in the EU mainly relates to:**

- How to improve the functioning of the food chain, and
- How to improve dairy producers' bargaining power in the food chain.

That discussion is taking place in the High Level Group on Milk, which this very week held its last meeting. The outcome of the work will be presented to the EU agriculture ministers in mid-July.

This High Level Group was composed of top officials. The group's task was to visualise a new dairy policy framework in a situation where the EU milk quota system will be abolished from among the regulatory tools in 2015. We in Finland would be wished to continue with the quota system also after 2015, because the system has guaranteed the preservation of prerequisites for the production in less-favoured regions. Unfortunately we were left quote alone with this demand in the context of the health check of the common agricultural policy in 2008. Now there is no return to milk quota system and we must look ahead into the future.

The new dairy policy is not based on extensive use of market instruments. The market instruments will constitute an ultimate safety net, instead of stimulating the markets.

"If not quotas and market instruments, what will be left?", you might ask.

The new dairy policy is a shift of power in the food chain for the benefit of dairy farmers. In this way the farmers are given the tools to re-gain the power to decide their fair share in the value of the food chain.

"How will this be done? It will be done with the help of:

- New detailed framework milk contracts

- Greater collective bargaining power of dairy farmers,
- "Inter-branch" organisations.

Now I shall give you some details relating to these.

The first aspect I would like to highlight is the contracts between farmers and dairies. This is an area where something new will come out of the High Level Group.

Until now, the problem was that cooperatives which accept all milk delivered by their members lack the flexibility to adjust their supply when the demand drops. This will change, since the discussion on the delivery contracts has brought up a new element: the volume of delivery which is agreed in advance between producers and dairies.

At present, there is a considerable uncertainty for farmers since farmers do not know what price they will receive for their milk when delivering. The actual price is often fixed much later by dairies on the basis of the obtained added value.

This is something the High Level Group would like to see changed. Indeed, the use of formalised written contracts made in advance of delivery will be recommended. The new contracts should cover the following four elements.

1. Fixed price arrangements, i.e. the price payable for delivery
2. Fixed volume arrangements, i.e. the volume which could and/or must be delivered
3. Timing
4. Agreement on duration of the contract

So, the High Level Group believes that much of the farmer's uncertainty can be reduced by new and better contracts. From the Commission side, the contracts will be further specified on a voluntary basis. Voluntary means that the details of all four elements will be freely negotiated between farmers and dairies.

The second aspect is the relation between EU competition law and agriculture.

The High Level Group has noticed that dairy farmers are quite powerless in the food chain at this moment. Therefore, the new dairy policy would allow greater collective bargaining power for dairy farmers.

In this new approach certain tools are given to dairy farmers to manage their future, and it is the EU competition law which will offer the necessary tools. Certain well-defined exemptions are granted for farmers in the EU competition law. In the light of these exemptions, farmers are given a right to negotiate collectively their share in the food chain. This means that dairy farmers will not be mere price-takers in future, but active players who negotiate in price talks. The collective negotiation rights are an

important exception from the EU competition law, since normally the EU cartel rules prevent this kind of collective action.

The third aspect, I would like to deal with is the "inter-branch organisation".

The inter-branch organisation is a negotiation mechanism where dairy farmers can at their will initiate negotiations with the dairies, the distributors or the trade. These negotiations can cover almost any aspect of interest of farmers.

Inter-branch organisation is a way to bring farmers, dairies, retail and distribution to the same negotiation table. For example France, which is very active with inter-branch, is able to pay a three to four cents higher milk price for their dairy farmers than its neighbouring countries.

There is a broad consensus in the EU Ministerial Council that currently the end of the food chain is too powerful at the cost of farmers. This is why this current debate has taken place.

In Finland we have already started to push for a change. We have been some tough negotiations with my colleagues in the Government and among the Finnish competition law authorities. As a result, on the 10th of June the Government decided to prepare new legislation to improve the farmers' position in the food chain.

Ladies and gentlemen,

As you heard from my speech:

- The dairy reform is taking shape.
- We are leaving behind the traditional policy based on quotas and market instruments.
- We are entering a new era where farmers' position in the food chain will be stronger. It will lead to better functioning of the food chain.

Milk production in each country needs domestic dairy industry of its own. This applies the other way round as well: the dairy industry of each country needs domestic milk production.

High-quality raw material and products ensure that the consumer confidence is maintained. This combined with innovative development work are the key how the Nordic dairy industry will succeed also in the future. I wish you the best success in your work, as well as a pleasant and rewarding Congress.

Ladies and Gentlemen, thank you for your attention!