

Speech by Anita Wouters, Director-General, Ministry of Agriculture, Nature and Food Quality, on behalf of Minister Verburg at the opening of the European Dairy Farmers congress on 18 June 2008 in Groningen.

Ladies and Gentlemen,

Of course you would like to have seen Minister Verburg standing here today.

Unfortunately she is unable to attend because of her parliamentary duties.

I am very pleased to be here to deliver her speech in her place.

Minister Verburg knows you have progressive, forward looking and hard working members all over Europe. Therefore, she is delighted that this congress is being held by your organisation, the EDF. And that *you* choose to hold it here, in the Netherlands. Because the Netherlands is a dairy country and it is quite impossible to imagine it without dairy cows.

The Minister would have been particularly happy to meet you here in Groningen. Because this northern part of the Netherlands would be seen as to be *the* place for grassy meadows, farmhouses and Friesian cattle. For high milk production and consumption. And, in more general terms, for people with a trading mentality. Our Minister, coming as she does from a family of livestock producers, is proud of all this.

It is also a wonderful idea for EDF to devote a congress to the new reality.

And it is well-timed.

Changes are on the way.

Reform of European agricultural policy.

Climate.

The increasing demand for your products on a world scale.

And these are just a few of the changes.

Realism is indeed the best response.

The past holds hints of what has to come.

Which is why I would first like to consider the recent past with you.

The present reality will then reveal itself.

I would then like to give my view of the situation in 2015 and beyond.

To begin with, I would like to go back one generation.

In the past fifty years milk production has grown spectacularly.

In 2006, a Dutch farm produced on average more than four hundred and ninety thousand litres of milk.

That is fifteen times more than the production volume in 1956.

There are eight times more heads of cattle per farm and, on top of that, a Dutch cow now produces twice as much milk.

In terms of scale, these developments are spectacular.

In the 1950s a Dutch dairy farm looked completely different.

It is hard to imagine now but in those days we hardly had any dairy farmers with more than 30 cows.

Just a little over 2 per cent had a large-scale farm.

That seems unbelievable now: two years ago, in 2006, 83 per cent of farmers kept more than 30 cows and more than 1300 dairy farmers produced more than a million litres of milk. But the number of dairy farmers has decreased at a rate of more than four per cent a year.

How can we explain these developments?

By two rationalisation exercises. The first was in the early 1970s. Fewer and fewer milk churns were being picked up and driven, rattling all the way, to the dairy.

Simply because the refrigerated milk tanker had made its entrance.

The second development followed a number of years later, in 1984.

Milk quotas were introduced to reduce the butter mountain and the milk lake, making a part of the production capacity superfluous.

We have learnt from the past.

We have felt the far-reaching effects of new technology such as the refrigerated milk tanker.

We know the effects of new policy.

In the mean time, we have learned to understand the needs of the planet. The soil and the surface water do suffer by noxious substances out of manure. So we have to decrease *and* recover the loss we caused to ecosystems. Sustainability has appeared on the agenda. I will return back to that point.

Underpinning today's radical realism are economic developments and new policy. Again policy reforms concern the quota system. I have already pointed out that this system was designed in Europe, in 1984, to support the market and to clear production surpluses. But now shortages are looming, and the intervention stocks of butter and skimmed milk powder have dried up. Now, in 2008, the quota system is turning against the market. Obviously, this was never the idea. I am convinced therefore that Brussels will not adopt a milk quota for 2015. The Netherlands and other EU countries should abolish it. The most interesting question that remains is: how can we ensure what we refer to as a 'soft landing'? What are the different phases? Minister Verburg and 26 of her colleagues from EU countries are working on this. We will keep you informed of developments over the next few months.

I would like to share the Dutch vision with you.

It ties in with the European Commission's proposals for a 'health check', which is an interim evaluation of the European agricultural policy. These proposals were submitted to the European Parliament by European Commissioner Fischer Boel last month. On the whole, we are happy with them, although there are a few things that deserve our specific attention, particularly the chapter on quota. This is disappointing as it suggests an increase of the quota by one percent each time for five years. This is not a soft landing – it's a crash landing. It's not new reality either and it lacks ambition. After pleading for a temporary quota expansion in the EU, our Minister realised an increase of the milk quota by two and a half percent in April this year.

And she won't stop there. It should be possible to increase the quota by two to three percent per year. The Minister aims to rally the support of as many Member States as she can and hopes Brussels and Strasburg will bring the proposals in line with market demands today. And it is possible: the impact analysis carried out by the Commission justifies a bigger quota increase, particularly for the Netherlands. Bigger means almost 15 percent more up to 2014. And should the quota expansion still fail to guarantee a 'soft landing', the Minister will urge the Commission to take additional measures.

Initially, the Commission had given the impression that it would propose higher quota. After all, we all know that the demand for dairy products has increased and will increase by about another three percent per year over the next few years. It shows how the system is restricting us. The demand for dairy products has increased globally. This would indeed offer plenty of opportunities for dairy farmers and dairy producers. But right now these opportunities are going to the US. The EU has already had to give in to the US: while our butter exports are going down, they are going up in the US. The US has become the biggest exporter of skimmed milk powder. Some of this is of course due to the low dollar. But more important is the fact that the US has not imposed any production restrictions. This makes them one of the few producers able to address the growing demand. It is frustrating. We are fighting the US for our share of the global market with our hands tied as it were.

Back to the middle-long term future. If I look ahead, I see the disappearance of more than the quota system alone. Take the WTO agreements on the ban on export refund, for instance. Also, the Health Check proposals set out how the European Commission aims to dismantle other market and price control instruments, including the automatic price intervention system for butter and skimmed milk powder. The Commission would like to see this replaced by a tender system. This means that in future it is the market that will decide and know the price of milk. It will put the government on the sideline and increase milk price fluctuations.

So how does this affect you?

As a European sector you must strive to create a situation in which you are fully competitive. Your milk price will fluctuate with global market dairy prices. It is an entirely new situation, particularly compared with 1984 when most dairy farmers relied on stable milk prices. At the time, the dairy industry offered farmers certainty based on fixed intervention prices for butter and skimmed milk powder. I believe it would be wise to continue to focus on three items: the *cost price*, *environmental demands*, and the development of *income support*.

- The *cost price* must be kept low to enable dairy farms to compete on the global market. Until recently quota costs constituted a key part of the cost price of Dutch farmers. Fortunately, quota costs have gone down considerably in the past year. Dutch dairy farmers should also consider whether

expanding their business is an option. After all, land and labour are scarce in this country. We must make the most of what land we have. All sorts of groups in society want to have their say on land use. Economies of scale do have their limits.

- Milk production will need to meet certain *environmental conditions*. According to analyses by the Commission, there will be six percent fewer dairy cows in the EU. On a European level, emission levels of ammonia and greenhouse gasses will fall once the quota has been abolished. The Minister is not prepared to wait for that. Before it gets to that stage, the Minister expects every dairy farmer in the Netherlands to be a farmer whose prime concern is sustainability and taking care of our planet. The new dairy farmer recognises the profit he can make out of sustainability and he takes up the challenge.
- We have taken to the idea to rearrange the income support for farmers in so-called 'valuable' areas. The Commission proposes to do so by means of what is called 'the national income aid envelope'. We will start an active search as we believe that there are valuable areas in the Netherlands that would be eligible for this. This autumn Mrs Verburg will set out how farmers wishing to do business in a socially responsible manner will be rewarded.

Ladies and gentlemen,

The Dutch vision on the EU common agricultural policy revolves around trust. Trust in innovation: 'yes we can'. And trust in the commitment of all those involved in the chain. We will do our best to encourage the EU to put a gradual abolishment of the milk quota system in place by increasing the milk quota. A temporary increase is called for, to solve current problems and to ensure a smooth landing of the quota system. While this might seem contradictory, we must not lose sight of our target. This is about new opportunities and a powerful sector, which sees its market share growing and which is capable of retaining it.

New reality is also about larger-scale production. I visualise this as an increase in the number of dairy cows per farm and a reduction in the number of dairy farmers. I can see farmers developing their social responsibility, focusing on sustainability and blending in with the landscape. The pace of change will depend on many factors. It depends on us, on you and on economic milk price developments. And yes, it means a radical change, but it is the future. Our future. I hope you make the most of it!

Let me conclude by wishing you all an interesting and informative congress.

Thank you.