

Speech by Commissioner Phil Hogan at Launch of Glanbia "Milkflex" Fund

March 9th, 2016, Ireland

- Check Against Delivery –

(Introduction)

- Minister Coveney, esteemed guests,
- Good morning to you all.
- I'm delighted to be here with you today.
- First of all, let me congratulate everyone at Glanbia for **once again** being at the forefront of positive developments in the agri-food sector.

- Well done to Group Chairman Henry Corbally, CEO Siobhan Talbot and Glanbia Ingredients Ireland CEO Jim Bergin, not forgetting Director of Strategy Sean Molloy and all their hard-working colleagues, for making this happen.
- I also want to take the opportunity to acknowledge the huge contribution of the NTMA, in particular Eugene O'Callaghan, the Director of the Ireland Strategic Investment Fund, and Cathal Fitzgerald, Head of Food and Agriculture Investment at NTMA.
- The Department of Finance has also had an important role to play.
- This is an important day, not only in Ireland but also from a European point of view. Let me provide you with a bit of background to explain why this is the case.
- Last year, I read a report commissioned by IBEC on behalf of the Food and Drink industry in Ireland.
- The conclusion of the report was that Irish prepared consumer food companies face a **prohibitive funding environment which undermines their ability to achieve growth and scale.**

- The take-away message from the report was that in February 2015, the cost of credit in Ireland remained well above that in other competitor eurozone countries.
- A differential of 170 basis points exists between the rate paid by the prepared consumer food industry in Ireland compared to the European mainland.
- This meant that in many cases, Irish companies, including those with detailed business plans for expansion, had to scale back their ambition. **This meant significant amounts of potential new jobs were being lost.**
- **The report reinforced to me the political need to address these issues at European level.** Today's launch therefore represents a much-needed and very welcome step on the journey to finding a solution.
- From my perspective, the job is not finished, and I will only be satisfied when the European Investment Bank is fully on board with the concept of financial instruments tailored to the EU agri-food sector.

- This will make a huge difference to farmers and agri-businesses throughout Europe, and it should mean that Ireland will be in a position to secure EU interest rates for Irish farmers, Irish SMEs and Irish agribusiness.
- **What you're launching here today will have real significance at European level.** It will send out the message that the sector can't wait any longer for smart and tailored financial instruments. These developments need to happen **now**.
- I have made this a priority from day one of my appointment as Commissioner. And with the current climate of price volatility in a number of sectors, the need is even starker.
- As you know better than most, since 2007 volatility and major price swings have been an ongoing feature of the dairy market.
- EU price volatility has moved much closer to that of the world market in recent years. This is a natural consequence of connecting our European agriculture system to the global market.

- Having a more market-oriented CAP is necessary if we are to safeguard our safe, high-quality European agriculture for the coming decades.
- But it does bring a greater element of risk. And farmers are feeling the pressure at the moment. I have been consistent in stating that the Commission remains strongly in favour of the producer. **Without the producer, there is no product. And without good quality products that are sustainably produced, we will not have rural jobs.**
- This is recognised at the very highest levels of the EU.
- We will take whatever steps we believe can ease the pressure on farmers today. But that is only one part of the equation: we are also planning for the future. **And this is where the vital importance of financial instruments comes into play.**
- **I have placed a huge degree of political priority on this, because I believe it is one of the strongest and most decisive steps we can take to give our farmers and agri-businesses the confidence and stability to invest and innovate.**

- We need to future-proof our agri-food sectors against price volatility while supporting our farmers in the here and now. At next week's European Council of Agriculture Ministers, I will be making a strong case that we need further action on financial instruments.
- **I welcome Ireland's submission to the Council calling for "EU level responses to volatility issues in the future such as more price transparency...as well as the use of financial instruments specifically designed to take account of the cash flow impact of downward price cycles in commodity markets".**
- It is vital that we build a strong coalition to move these issues forward.
- There has been significant interest in this subject from other EU institutions, from farm associations, from agri-food businesses, and from financial players.
- While the work at European level continues, I am always happy to see national or regional actors taking the bull by the horns and developing their own initiatives.

- The bottom line is simple: **financial instruments, if they are to work, need to be tailored to farmers' needs.** This means they will take into account the business model, cash flow fluctuations, and potential market price volatility issues of individual operations.
- There are so many producers and agri-business operators out there who will jump at any meaningful opportunity to put their ideas and ambitions into practice.
- And by helping **investment to flow to where it is needed, we can achieve real improvements:**
- enabling large-scale precision farming and ICT tools for data management;
- upgrading storage facilities;
- promoting energy and water efficiency;
- developing modern machinery and processing technologies;
- and stimulating rural entrepreneurship for the 21st century.

- I believe your **MilkFlex Fund** will achieve many of these things.
- First of all, it is flexible. It has inbuilt “flex triggers” which automatically adjust repayment terms in line with changes in manufacturing milk price.
- Secondly, it is competitively priced, recognising the specific needs of the sector in comparison to other areas of the economy.
- Thirdly, it shows the value of different partners coming together to put smart ideas into practice.
- The Ireland Strategic Investment Fund, Rabobank, Finance Ireland and Glanbia Co-op will all be investors in the Fund. And Finance Ireland will originate the loans and manage all aspects of its day-to-day operation. I would like to give a special word of thanks to Rabobank for taking a leadership role in this process.
- And finally, it is groundbreaking. When the Fund begins to deliver results, other regions and EU Member States will pay close attention.

- **Lending decisions will be based on the merit of a farmer's business plan as opposed to the asset value of their farm.** The Fund will offer loans with a base period of eight years, which can be automatically extended to 10 years when volatility triggers are enacted.
- It is expected that the Fund will be made available in three tranches in 2016, with the first tranche of €50m due on 1 May.
- Importantly, Finance Ireland will host a series of workshops in the Glanbia catchment area in April to provide information to farmers interested in making an application.
- These are truly exciting developments.
- Meanwhile, I will continue pushing this issue at European level.
- And I will continue to make a strong case that any risk management tools for the EU dairy sector, or indeed other sectors, must take into account the challenging features associated with milk production against a background of ongoing volatility.

- Bespoke solutions are necessary and desirable.
- I will maintain my engagement with the European Investment Bank to produce concrete results such as the setting up of financial instruments by Member States in the context of rural development programmes.
- The goal is to develop flexible loan repayment schedules and medium to long term credit lines with the type of competitive interest rates which an institution of the size of the EIB can secure.
- **And being able to point to ongoing success stories such as this one will add weight to the argument.**
- Let me conclude by wishing you the very best of luck for this important venture. I am grateful and proud of the partners that have made this financial scheme a reality.
- I am confident it will be a great success, and I am also hopeful it will inspire similar activity throughout our great Union.
- Many thanks.