EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

QUARTERLY REPORT ON THE DAIRY MARKET

Agricultural Council, 19 October 2009

1. SUMMARY

The overall situation of the dairy markets is steadily improving. There are clear signals of a rebound on the markets, with prices for dairy products increasing in the EU and on the international level and with farmgate milk prices following suit. EU average butter and SMP prices are now well above intervention levels and quantities bought into intervention are minimal. Export refunds continue to be applied at operative levels while the strong increase of butter prices has dampened the interest to use the extended scheme for private storage aid.

2. SUPPLY AND DEMAND

Overall, milk production in the first half of 2009 remains at the level of last year, while the quota level was increased by 1% in the quota year 2009/2010, following the CAP Health Check. The lower production in the first quarter was compensated by an increase between April and July, compared to the same period in 2008, partly due to very good grazing conditions. However, these additional quantities were delivered at very low milk prices and above the quota profile in countries who paid superlevy the previous year or were very close in doing so. These quantities have contributed to present intervention stocks. Jan-July 2009 deliveries by Member State are indicated below[1]:

Milk deliveries in Jan/Jul 2009 compared to Jan/Jul 2008 (in brackets July 2009/08)	
Countries with higher production	Countries with lower production
DE + 4.0% (+1.9%)	GR -0,4% (+0.7%)
DK + 3.9% (+3.2%)	ES -0,8% (-2.1%)
LU + 3.8% (+5.9%)	PT -0.9% (+1.0%)
IT + 3.8% (+2.1%)	SI -1.6% (+1.5%)
PL + 2.3% (-1.2%)	UK -1.7% (-1.4%)
NL + 2.2% (+3.2%)	IE -2.6% (-4.8%)
BE + 1.4% (0.0%)	HU -3.1% (-6.0%)
SE + 1.4% (-1.7%)	CZ -3.3% (-3.0%)
AT +1.0% (-0.9%)	EE -3.7% (-3.8%)
FI +1.0% (+2.6%)	CY -4.0% (-1.3%)
	FR -4.5% (-0.9%)
	LV -5.8% (-7.2%)
	LT -7.1% (-8.9%)
	RO -7.3 (-7.0%)
	SK -8.6% (-10.8%)
	BG -16.1% (-24.4%)
Total EU: +0.01% (0.4%)	

[1] No data: MT; Jan-Aug data: BE, EE, FI, FR, IE, IT, LT, LU, LV, NL, PL, RO, SK, UK

As the sector enters into the off-peak Autumn-Winter period and with signs of recovery of EU and world dairy product markets, the situation looks more healthy than before the summer holidays. Recent developments in milk production indicate that production in 2009/10 could remain at last year's level. However, the effects of the low prices on medium term production decisions are yet to be seen, with the farmers preparing the purchases of inputs (feed, fertilisers) for the next season.

The production season has now started in New Zealand and Australia, major dairy exporters on the southern hemisphere. With a slow start in New Zealand, the increase in this season is likely to return to the average 3-4% level, while in Australia a decrease of 1% is expected. In contrast, Argentina showed an increase of 4.9% in the first half of 2009, compared to last year.

US milk production, after several strong annual increases, seems to be stabilising and even slightly falling in recent months.

3. PRICES

As the EU and world prices of the main commodities have experienced a certain recovery, a similar pattern is visible for the milk price. With an average EU milk price of almost 26 cents in August, we see an increasing trend since the lowest point in May (24 cents/litre). Moreover, there are many indications that farmgate milk prices offered by the processors are revised further upwards in September in October. The EU average prices for dairy products are strengthening and remain firmly above intervention levels.

The development of EU prices for the main dairy commodities is shown in Annex 1, while the most recent official EU milk prices are shown in Annex 2.

The table below shows the current situation regarding dairy commodity prices in EU and in the world (14 October 2009).

€/t	Intervention price/ equivalent price (a)	Market price from previous report (June 2009)	Current market price[2] (b)	Current price as percentage of intervention price (b/a)%	World market price from previous report (June 2009)	Current world market price[3]
Butter	2 218	2200	2 623	118 %	1321	1 783
SMP	1 698	1651	1 896	112 %	1403	1 699
WMP	2 066	1950	2 323	112 %	1464	1 917
Cheddar	2 484	2217	2 288	92 %	1821	2 136
Edam	2 167	2434	2 464	114 %	-	-

[2] Weighted average price of 7 main exporting MS

[3] Oceania quotations (Source: USDA Agricultural marketing service)

4. EXPORTS

In January-August 2009 the exports of SMP, WMP and cheese declined slightly, compared with the same period of 2008 (without refunds). At the same time, exports of whey powder increased by 13% and butter by 7%, with increases also of condensed milk and lactose. Recent applications for export licenses indicate a better export performance of the main commodities in the second half of 2009 with exception of butter (strong domestic prices).

5. ACTIONS TAKEN SINCE LAST QUARTERLY REPORT

In the continuous efforts to improve the situation on the diary market and stimulate demand in view of the negative effects of the economic crisis, the following specific actions have been taken since the last report::

– Prolongation of the **private storage** aid for butter until the 28th of February with a total of 135 000 tonnes being stored in 2009 (of which 1300 tonnes in the extended scheme).

– Setting of operative **export refunds** for all dairy commodities. The demand for export licences has been increasing recently and refunds were kept unchanged.

Issued licenses (tonnes)		
	23.1.09 – 23.6.09	24.6.0913.10.09
Butter/oil	91 883	55 333
SMP	120 860	128 333
Cheese	133 933	102 463
Others (incl WMP)	458 958	346 365

– **Minimum price for refunded cheese** exports was abolished as from 16 August 2009.

– **Intervention buying-in** for butter and SMP has been extended beyond the 31st of August until the 30th of November, pending the Council decision to further prolong it until the 28th of February.

  In total 83,000 tonnes of butter have been bought into intervention, equal to approximately 7% of the butter production in the first seven months of 2009 (4.3% of 2008 annual production) In addition 283,000 tonnes of SMP have been bought into intervention, equal to 42% of the SMP production in the first seven months of 2009 (30% of 2008 annual production). No butter has been bought into intervention since mid-August. Only a few hundred tonnes of SMP were bought into intervention in September and October.

  The unusual surplus of protein relative to fat in intervention may be traced to the effect of lower demand for drinking milk and high value products, which generates a proportionately larger increase in SMP production compared to butter.

– **Extension of the School Milk Scheme** in terms of more attractive product range being supported.

– **Additional promotional programmes** specifically for the dairy sector.

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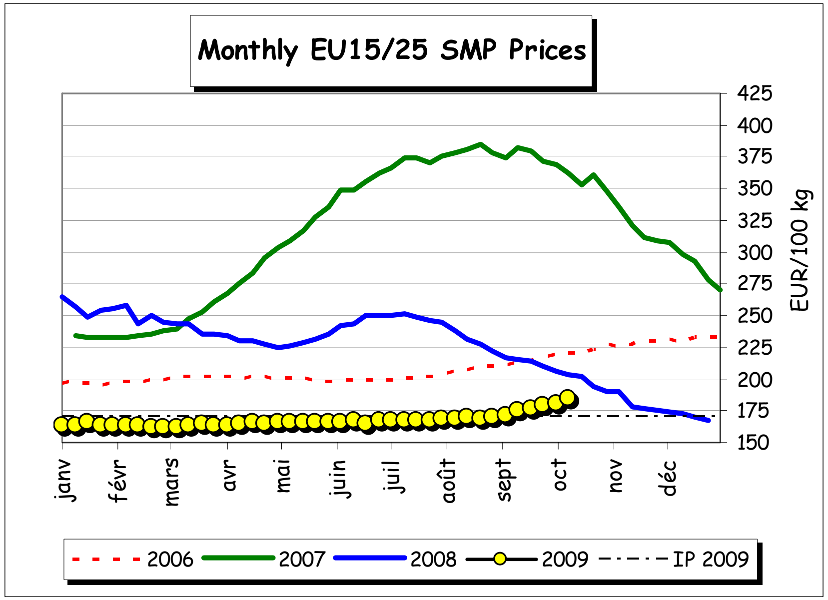
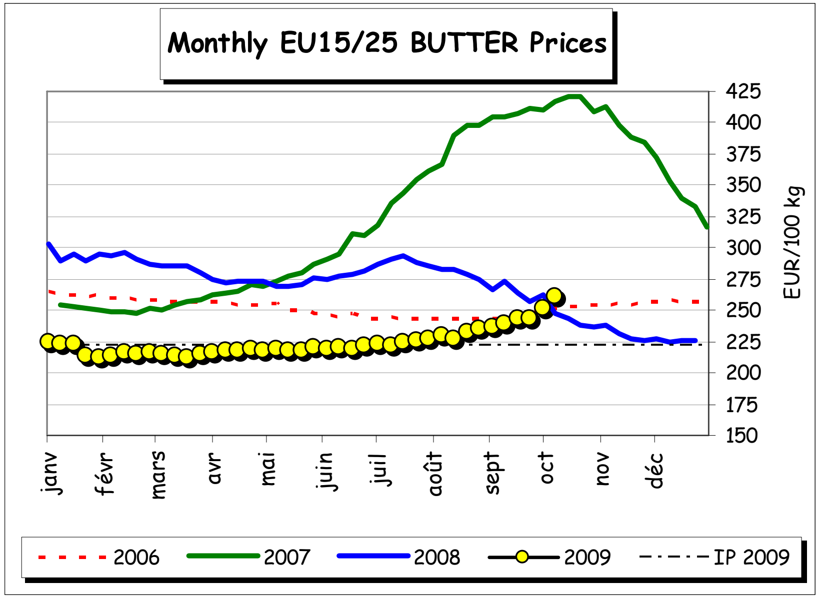
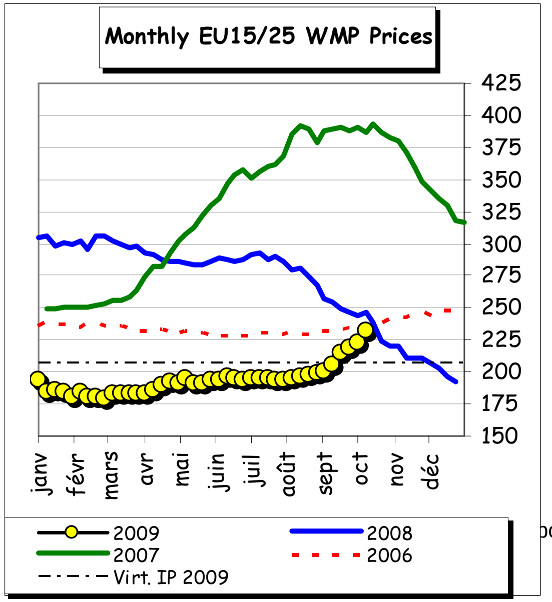
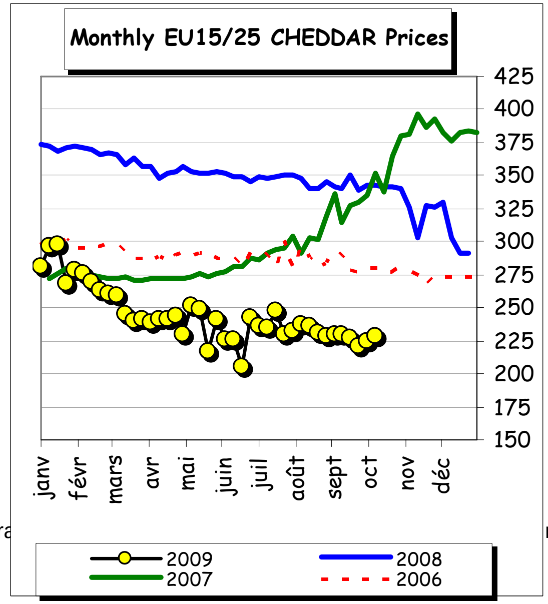
Next report will be delivered to the Agricultural Council in January 2010.

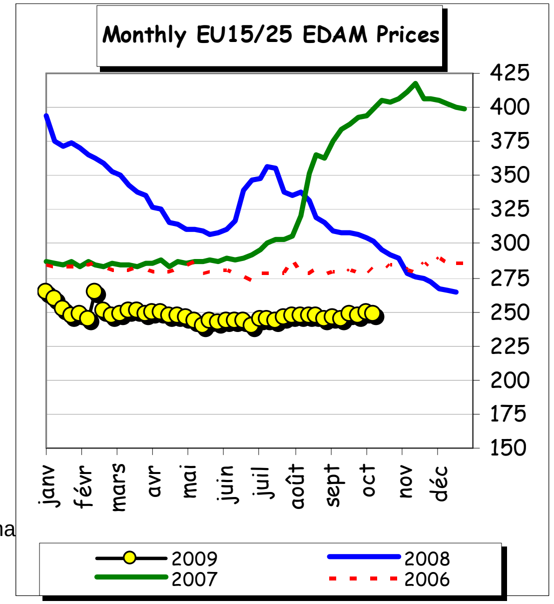
Annex 1: EU dairy prices











Annex 2: EU raw milk prices