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DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT
Directorate G. Markets and Observatories
G.3. Animal products

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MINUTES

Meeting of the Expert group on the Milk Market Observatory¹

25/01/2017

Chairman: Jens SCHAPS, Director AGRI-G

1. Approval of the agenda and of the minutes of previous meeting

2. Nature of the meeting

Non-public

3. List of points discussed

Milk Market Situation

- EU dairy production and prices (DG AGRI).
- Stocks evolution (EDA).
- World supply and trade (Eucolait).
- EU domestic consumption (Eurocommerce).

Round table: Assessment on milk market situation (Stakeholders' market experts)

Exceptional adjustment aid to milk producers and farmers in other livestock sectors (R 2016/1613): Choices made by Member States (DG AGRI)

Closure and conclusions

Proceedings:

The 19th meeting of the MMO Economic Board took place on 25 January 2016, with the participation of experts from the various steps in the milk supply chain: CEJA (young

¹ Published in the Register of Commission Expert Groups and Other Similar Entities, code number E03037

farmers), COPA-COGECA (producers and cooperatives), ECVV (Via Campesina), EMB (European Milk Board), EDA (dairy industry), Eurolait (dairy trade) and Eurocommerce (retail). DG AGRI presentations and information exchanged during the meeting showed the following.

EU milk collection was up by 0.7% in the first 11 months of 2016. Milk deliveries were 3.7% lower in November 2016 (-440 000 t) – the 6th consecutive month with a reduction. Significant decreases have been reported in major producing MS such as the UK, FR or DE although in some others (PL, IE or NL) the decline is not that pronounced.

Average farm gate milk prices increased by 6.2% in November to 31.8 c/kg. Based on estimates, a further increase would have taken place in December, for an overall +25% since July.

Dairy product prices keep the upward trend initiated in May, with butter having reached a record level of 430 €/100 kg and SMP stabilised around 210 €/100 kg (124% of the intervention price). Cheese prices (notably gouda and edam) have also improved significantly since May. The strengthening of the € in early 2017 has hampered EU price competitiveness in the world markets, making the EU SMP slightly more expensive than the US one.

Only a modest volume (40 t) of the SMP made available for sale from public intervention has been sold since the tendering procedure was open in December. Bids were rejected in the 2nd and 3rd tenders as offered prices were considered too low. Interest for the standard PSA scheme for SMP (210 days) has picked up in the first weeks of January, with some 5 000 t having been offered. The uptake of the enhanced scheme (365 days) is marginal. PSA schemes for butter and cheese expired in September, destocking continues to take place.

The assessment of EU stock levels based on a residual approach (production + imports – consumption - exports) reveals normal private stocks for SMP (but public stocks weighing on the market). On the contrary, for butter, stocks fell drastically, leading to severe shortage. Butter prices might ease in H1 due to the spring flush, but are expected to increase again in the 2nd half of the year. Cheese stock levels show a similar – though less acute – evolution as for butter.

At world level, milk production growth slowed down in July-November, led by the EU and to a lesser extent by Oceania and South America. US production keeps on expanding steadily. Combined growth rate in 2016 (by November) reached +0.14%. Wet weather and weak prices have conditioned milk production in Oceania. Full season output is expected to be well below previous year. US milk production was up by 2.6% in November, the USDA forecast for 2016 is + 1.9%.

Global exports have increased throughout 2016, although a small slowdown has been observed in October. SMP demand has suffered from a lower purchasing power in oil producing countries. Markets for butter, cheese, whey powder, infant formula and liquid milk/cream show remarkable dynamism. EU cheese exports in 2016 reached pre-Russian embargo levels China keeps on standing as the main world importer of dairy products and main destination of EU exports (notably for value added and consumer products). A declining milk production in 2016 and 2017 and public stimulus to increase domestic consumption might sustain Chinese imports. Brazil imports surged in 2016, mainly originating from other MERCOSUR partners.

With regard to EU retail sales, the consumer perception of milk as a healthy product is still jeopardized. However consumers tend to privilege premium niche products (organic, pasture milk, lactose-free) leading in some cases to a shortage in the markets.

Mr. Koert Verkerk (LTO Nederland) gave an overview of the expected impact in the NL of phosphate limits. The Dutch measures follow an environmental objective in reducing the current phosphate levels in such a manner that they are compliant with EU legislation. To this end, farmers should be encouraged to reduce their number of livestock. Some 190.000 dairy cows might have to be disposed of in 2017, leading to a 5% decrease in milk production.

The Commission presented first estimates for 2017 dairy balances. Increased slaughtering may translate into a reduced dairy herd in 2016 and 2017. EU milk deliveries are expected to remain below 2016 in the first half of 2017 but could rebound in the second half leading to a small annual increase of 0.5%. Uncertainties remain high at this stage of the year (price development, weather conditions...).

The Commission gave an overview of the measures designed by MS for using the exceptional adjustment aid. The total budget mobilised, including national top ups might reach 561 million €. The dairy sector would be the 1st beneficiary with some 76% of the total amount. Reduction or freeze of production reduction is the most frequent choice made by MS.

4. Conclusions/recommendations/opinions

Global supply reduction coupled with a resilient demand is driving the world market towards a new equilibrium. EU price levels are above long term averages (except for SMP) but are still competitive on the world market. Political developments create increased uncertainty for the dairy sector in 2017

5. Next steps

Publication of the factual elements of the report on the MMO website.

6. Next meeting

28/03/2017

7. List of participants

Attached

Jens SCHAPS
(e-signed)
pour le Directeur empêché
Luis CARAZO JIMENEZ

List of participants– Minutes

Expert group on the Milk Market Observatory

Date: 25/01/2016

ORGANISATION	NUMBER OF PERSONS
COGECA	2
COPA	2
CEJA	2
ECVC	1
EDA	2
EMB	1
EUCOLAIT	2
EUROCOMMERCE	2
Ad hoc expert	1