



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 25 June 2010

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NOTE

from: Commission
to: Council

Subject: Quarterly report on the Dairy market

Delegations will find attached a document from the Commission on the abovementioned subject, with a view to the meeting of the Council (Agriculture and Fisheries) on 29 June 2010.



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

QUARTERLY REPORT ON THE DAIRY MARKET

Agricultural Council, 29 June 2010

1. SUMMARY

The overall situation of the dairy market has been continuously improving in the second half of 2009 and the first half of 2010. At present, EU and world prices appear to be stabilising for most commodities despite the seasonal increase in EU and US milk production. In the EU, the main dairy commodities are priced well above intervention levels (real or virtual).

Milk prices have developed positively from May 2009 until November 2009 where they reached 28.4 c/kg. They have stabilised around that level in the 1st quarter of 2010, contrary to the seasonal pattern that normally shows a decreasing trend during winter and spring. The estimated April EU average is 27.7 c/kg (slightly up from March) and a number of large dairies in various MS have announced higher milk prices for the coming months.

Milk deliveries in the calendar year 2009 ended 0.6% below the 2008 level, despite the 1% quota increase for the quota year 2009/10. For the quota year 2009/10, the provisional estimate is a 7% under-use of quota for the EU-27 (based on monthly communications by the Member States to Eurostat).

The release of butter and SMP intervention stocks started at the beginning of May under the most deprived persons' programme and the procedure to release additional quantities by tender was opened at the end of May, given favourable market conditions (limited supply – dynamic demand, especially for butter). For the moment, no negative impact from the release of stocks is observed on the market.

2. SUPPLY AND DEMAND

EU

According to monthly notifications by the Member States to Eurostat and an estimate on the volume concerned by the new fat correction factor, the 2009/10 quota year is estimated to have ended with EU milk deliveries approximately 7% under quota. If those estimates prove true, the undershoot would be nearly twice that of the 2008/09 quota year which ended with a net under use of around 5.38 million t. According to provisional figures, NL and DK would have to pay a super levy, while DE, AT, LU and CY appear very close to quota.

**Milk deliveries versus delivery quotas
(without an estimate on fat correction for 2009/10)**

	Quota year 2008/09	Quota year 2009/10	Difference
Milk quotas (deliveries)	143 074 146	144 921 617	+ 1.29%
Milk collection (April-March) - provisional	133 621 102	133 004 295	- 0.46%
Rate of quota use, based on provisional figures	93.39%	91.78%	

With regard to the calendar year, cow's milk deliveries dropped by 0.6% in 2009 compared to 2008 (- 793 000 t) and the trend continued in the first 4 months of 2010 (- 1.3% = - 546 000 t), largely due to the long cold and snowy winter. Member States' milk deliveries variations – both in volumes and percentages – for the first 4 months of calendar year 2010 compared to the same period in 2009 are shown in the table below (NB: no data for Malta).

MS where cow's milk deliveries increased Jan-Apr 2010/2009			MS where cow's milk deliveries decreased in Jan-Apr 2010/2009		
	in 1 000 t	diff in %		in 1 000 t	diff in %
BE	+ 32.1	+ 3.1%	SI	- 1.0	- 0.6%
NL	+ 74.2	+ 2.0%	UK	- 41.5	- 0.9%
FI	+ 11.8	+ 1.5%	DE	- 82.2	- 1.2% *
LV	+ 2.0	+ 1.1%	FR	- 127.1	- 1.6%
LU	+ 1.1	+ 1.1%	CZ	- 19.3	- 2.5%
IT	+ 40.1	+ 1.1%	ES	- 43.6	- 2.9% *
AT	+ 9.4	+ 1.0%	PL	- 105.5	- 3.6%
GR	+ 1.4	+ 0.8% *	PT	- 17.4	- 3.7% *
DK	+ 7.9	+ 0.7% *	SE	- 44.3	- 4.4%
CY	+ 0.2	+ 0.4%	RO	- 17.9	- 5.9%
			IE	- 85.6	- 6.3%
			LT	- 25.5	- 7.3%
			EE	- 11.7	- 8.0% *
			SK	- 25.9	- 8.7%
			BG	- 20.2	- 9.7%
			HU	- 57.4	- 11.9%

* only January-March

Third Countries

The milk production year ended on 31 May in NZ, and early reports confirm that annual production was even with last year on a volume basis and 0.3% higher on a milk solids basis. In recent weeks, rainfall has been occurring on a regular basis. Water reserves have been replenished and conditions are good going into the winter months. For a significant portion of milk producers in NZ, an earlier than usual announcement of a positive opening farm gate milk price for the upcoming season will add a degree of confidence for producers for the upcoming year.

In **Australia**, late season milk volumes continue to run heavier than last year at the same period, so that - even if total production in the first 10 months of the season (July-April) is 5.2% below last year - cumulative 2009/10 milk production continues to be estimated at 4% behind last year (versus the 6-7% decline projection earlier in the season). A positive end to a season typically enhances herd health and conditioning for the upcoming season. In recent weeks, good volumes of rainfall have been occurring throughout the dairy region and water levels have been re-established, so that farmers are looking forward to the new milk production season with optimism.

In the **US**, milk production is heavy, but balanced by reduced component levels, probably due to lower quality feed used in 2009. Cream has become very tight, as the butterfat level in milk has been trending below recent years (around 3.61%) and increased cream is used for ice cream manufacture due to warm weather. Some butter producers are selling extra cream rather than try to build inventory at higher prices. Current cheese production remains heavy. The CWT (Cooperatives Working Together) announced additional cheese export assistance awards (since the re-start of the programme in March, 16 375 t cheese have been exported with subsidy). SMP producers are said to be resisting lower prices and building inventories. Buyers are purchasing only for immediate needs and exports have slowed down due to the US dollar strength.

On 27 May, CWT announced a new dairy herd retirement program (the 10th since it began operations in the summer of 2003). Bids had to be lodged by 25 June. The maximum bid is 3.75 \$/cwt (= 8.33 c/kg), the lowest maximum yet, in the context of high beef prices and relatively low replacement cow prices. Farmers whose bids are accepted are paid by CWT for their milk production, and retain the beef value of the cows they send for processing. As was the case for the 2009 herd retirement programme, CWT has no set target for the volume of milk or the number of cows to be removed, but it is not expected to have a significant impact on milk production.

India is reported to be heading for a milk surplus this year, after a good monsoon season and higher prices which followed last year's drought. Last year, India had 22% less rainfall than average. This year, monsoon rainfall in April was 98% of the long-term average. Milk surpluses have already built up in the central state of Maharashtra, east of Mumbai. Surpluses are expected to appear in northern states over the next 2 to 3 months.

3. PRICES

EU prices for the main dairy commodities increased quite substantially in the 3 month period between the March report and the present one, especially for cheese (+ 20%), butter and WMP (+ 23%). World quotations have increased even more for WMP (+ 35%). Currently, EU prices in € seem to have stabilised and no impact is observed on the market following the release of EU intervention stocks.

The table below shows the current situation regarding dairy commodity prices in the EU and in the world (June 2010). The short term evolution of EU prices is tabled in Annex 1 while the longer term development is shown in Annex 2.

€/t	EU Intervention price/equivalent price	EU market price from previous report	Current EU market price ⁽¹⁾	Current EU price as percentage of real/virtual intervention price	World market price from previous report	Current world market price ⁽²⁾
	(a)	(March 2010)	(b)	(b/a)%	(March 2010)	
Butter	2 218	2 741	3 362	+ 151.6%	2 675	3 300
SMP	1 698	2 039	2 325	+ 136.9%	2 080	2 429
WMP	2 066	2 408	2 950	+ 142.8%	2 330	3 137
Cheddar	2 484	2 382	2 852	+ 114.8%	2 785	3 219
Edam	2 167	2 703	2 922	+ 134.8%	-	-

⁽¹⁾ Weighted average price of 7 main exporting MS ⁽²⁾ Oceania quotations (Source: USDA Agricultural Marketing Service)

Milk prices have developed positively from May 2009 until November 2009 where they reached 28.4 c/kg. They have stabilised around that level in the 1st quarter of 2010, contrary to the seasonal pattern that normally shows a decreasing trend during winter and spring. The April EU average is 27.7 c/kg (with data lacking for 3 MS). The seasonal increase in milk supply has not lead to a reduction in milk prices, thanks to strong dairy commodity prices. On the contrary, a number of large dairies in various MS are announcing higher milk prices for the coming months. For the purpose of reference, the virtual intervention price for milk is approximately 21.5 c/kg.

The most recent official EU milk prices per Member States are shown in Annex 3 and the longer term evolution of EU weighted average raw milk prices compared with LTO average prices and the theoretical EU price based on butter and SMP prices is shown in Annex 4.

4. EXPORTS

The first 4 months of 2010 have been particularly successful for EU exports: 201 600 t cheese (+ 19.6%), 119 400 t SMP (+ 105.4%), 114 200 t whey powder (+ 6.7%) and 41 600 t butter (+ 11.4%) were exported. The percentages of increase were particularly strong for January but are still very high with February, March and April included. The only decreasing volumes concern WMP (143 100 t /- 9.7%), condensed milk (77 500 t /- 0.2%) and butteroil (7 600 t /- 3%).

5. ACTIONS TAKEN SINCE LAST QUARTERLY REPORT

Following actions should be noted since the last report in March 2010:

- The Commission has received Member States' reports on the method of allocation of payments made before July under the regulation establishing **specific market support in the dairy sector**, following the extension of art 186 of the Single CMO, granting MS a total financial envelope of 300 million € to be distributed to dairy farmers that have been severely affected by the crisis.
- Quantities of butter offered into **private stocks** have been significantly lower up to now than in previous years: 45 935 t were offered on 13 June 2010 (compared to 96 979 t at the same period in 2009 and 108 736 t in 2008).

- The **release of butter and SMP intervention stocks** started at the beginning of May under the most deprived persons' programme and the procedure to release additional quantities by tender was opened at the end of May. The first deadline for the submission of bids was 1st June. 11 511 t butter were awarded at prices varying between 345 € to 385.10 €/100 kg, from cold stores in BE, IE, FR, the NL and the UK. All bids for SMP were rejected because the prices were too low compared to prevailing market prices. The 2nd deadline for the submission of bids was 15 June. 13 690 t butter and 79 553 t SMP were available for that tender. 11 935 t butter were awarded at prices ranging from 355.10 € to 381.50 €/100 kg, from cold stores in CZ, EE, IE, LT and the UK. All bids for SMP were rejected because the prices, though higher than at the 1st tender, still appeared too low compared to prevailing market prices.
- The **High Level Expert Group on milk** - examining longer term arrangements which can further contribute to stabilising the market and producers' incomes, reducing price volatility and enhancing market transparency – issued its final report on 15 June 2010. MS expressed their overall satisfaction with the report and the work done. Commissioner Ciolos intends to table legislative proposals by the end of the year on the aspects of contractual relations, bargaining power of producers and inter-branch organisations. Issues relating to marketing standards and the possible labelling of the place of farming will be part of the Quality policy package. Questions relating to possible changes to market measures, innovation and research will be dealt with under the CAP reform post 2013, for which proposals will be made in the first half of 2011.

Annex 1: EU dairy prices

Dairy Quotations - June 2009 and June 2010

Last update : 24.06.2010

Raw Milk Price in EUR/Tonne

	Jun 09 EUR/T	Jun 10 EUR/T	Difference	
			EUR/T	%
EU 27 Weighted Average	242	277 °	+ 35	+ 14%
<i>NL spot prices</i>	200	328	+ 128	+ 64%
<i>North Ireland spot prices</i>	223	332	+ 109	+ 49%
<i>IT spot prices</i>	281	376	+ 95	+ 34%
New Zealand	158	263 °	+ 105	+ 66%
U.S.A.	178	240 °	+ 62	+ 35%

° : Latest available prices (June 2010)

Commodities in EUR/Tonne

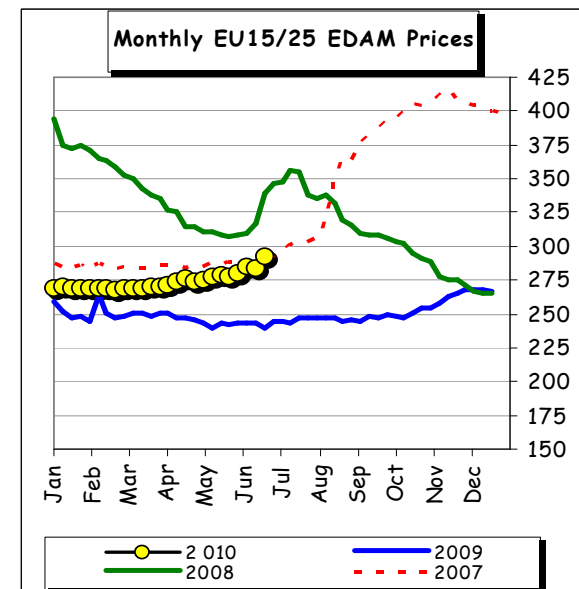
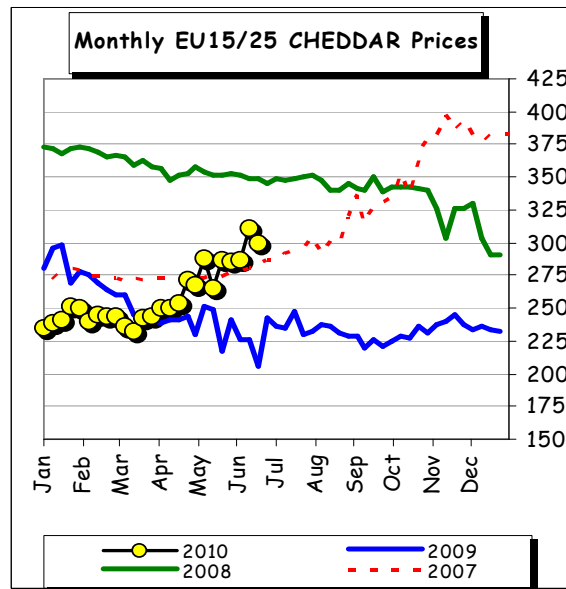
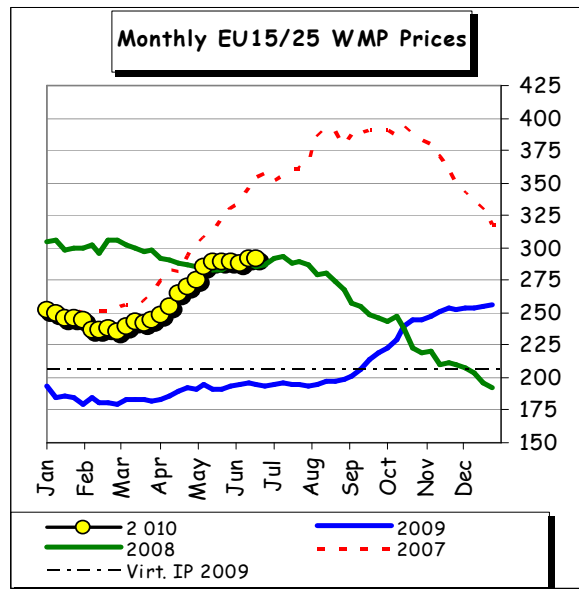
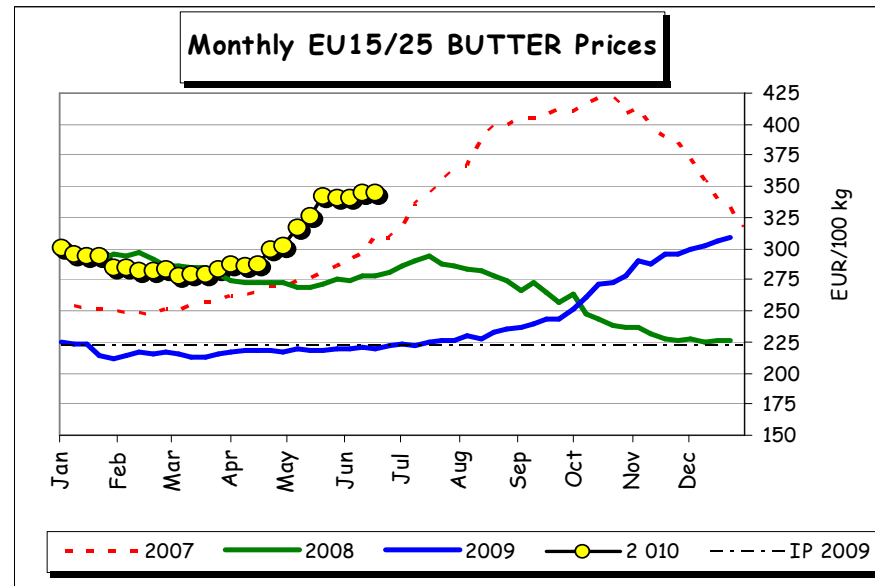
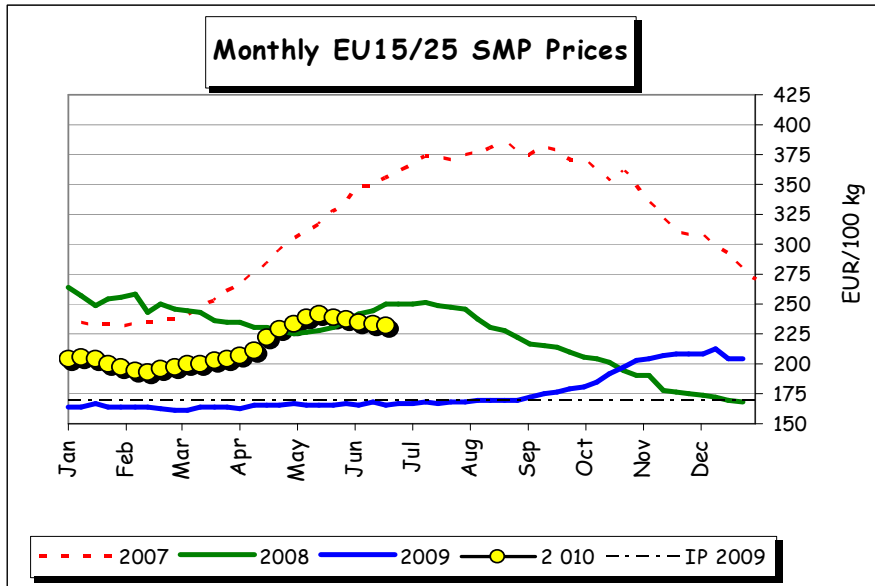
	EU 27		Difference	
	Jun 09 EUR/T	Jun 10 EUR/T	EUR/T	%
Butter	2 215	3 362	+ 1 147	+ 52%
Skimmed Milk Powder	1 655	2 325	+ 670	+ 40%
Whole Milk Powder	1 945	2 950	+ 1 005	+ 52%
Cheddar Cheese	2 160	2 852	+ 692	+ 32%
Gouda Cheese	2 415	2 868	+ 453	+ 19%

	Oceania		Difference	
	Jun 09 EUR/T	Jun 10 EUR/T	EUR/T	%
Butter	1 355	3 300	+ 1 945	+ 144%
Skimmed Milk Powder	1 380	2 429	+ 1 049	+ 76%
		2 815 *		
Whole Milk Powder	1 545	3 137	+ 1 592	+ 103%
	1 325	3 080 *	+ 1 755	+ 132%
Cheddar Cheese	1 810	3 219	+ 1 409	+ 78%

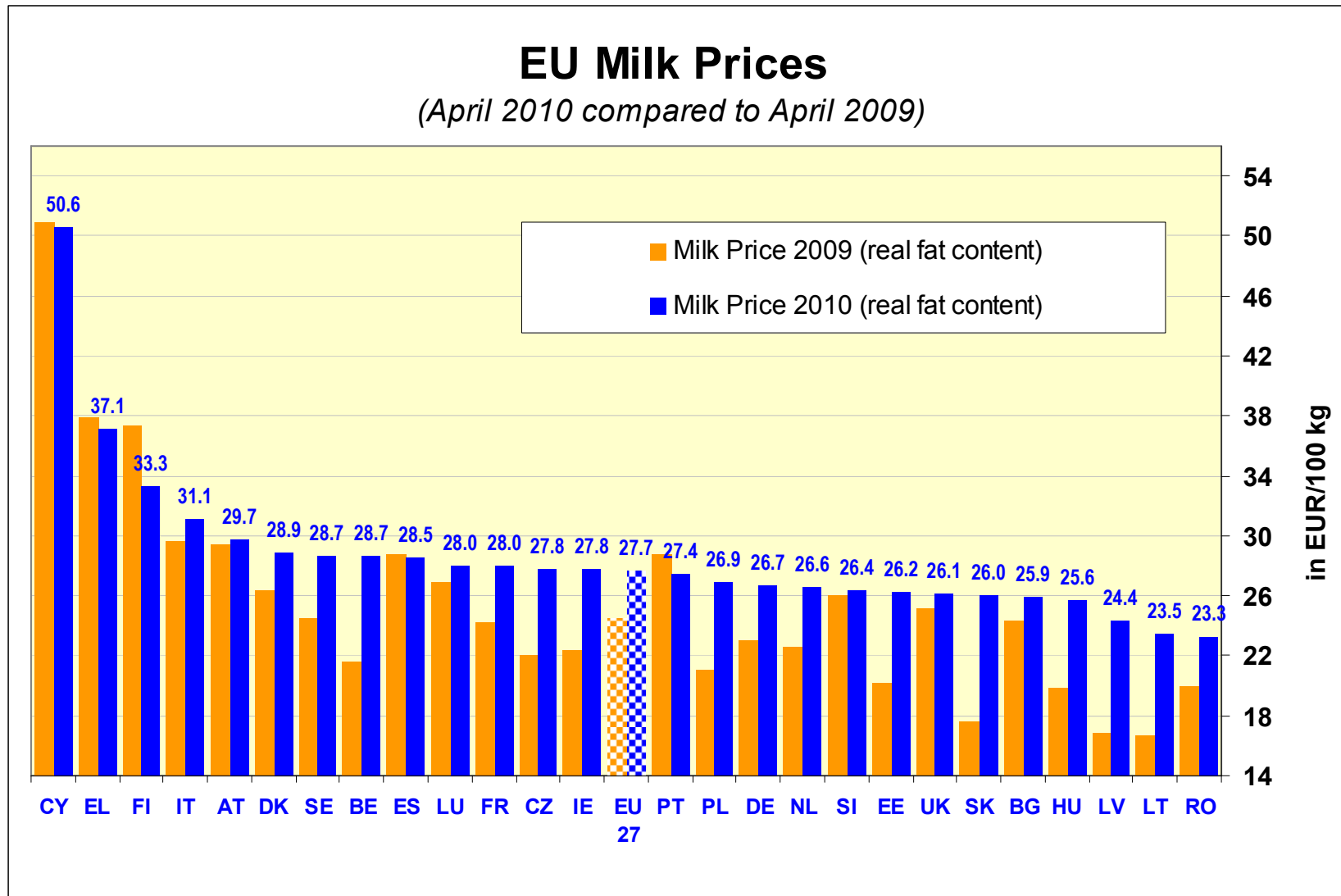
* : Fonterra WMP and SMP Auction (NZ + australia)

	U.S.A.		Difference	
	Jun 09 EUR/T	Jun 10 EUR/T	EUR/T	%
Butter	2 000	2 977	+ 977	+ 49%
Skimmed Milk Powder	1 385	2 298	+ 913	+ 66%
Whole Milk Powder	1 855	2 956	+ 1 101	+ 59%
Cheddar Cheese	1 820	2 294	+ 474	+ 26%

Annex 2: EU internal average prices weighted with production data



Annex 3: EU raw milk prices



Annex 4: Evolution of EU weighted average raw milk price compared with the LTO weighted average price and the theoretical milk price based on SMP and butter prices

