



**COUNCIL OF  
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**NOTE**

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from:	Commission
to:	Council
Subject:	Quarterly report on the Dairy market

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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 27 September 2010.

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EUROPEAN COMMISSION  
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

## **QUARTERLY REPORT ON THE DAIRY MARKET**

**Agricultural Council, 27 September 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. EU and world prices for most commodities stayed at relatively high levels during the seasonal increase in EU and US milk production. Milk production is now seasonally decreasing in the Northern hemisphere but with higher monthly output than in the same months last year, and the new season is starting in Oceania under favourable conditions both in terms of weather and pay-out for farmers. In the EU, the main dairy commodities continue to be priced well above intervention levels (real or virtual)

After a steady recovery from May 2009 to November 2009 and a stabilisation in the 1st quarter of 2010, contrary to the seasonal pattern, milk prices have been increasing month after month from April onwards, to reach an estimated EU average price of 30 c/kg in July.

Cow milk deliveries in the calendar year 2009 ended 0.6% below the 2008 level, and the trend continued in the period January-April 2010. Although monthly milk deliveries exceeded last year's level from May 2010, cumulative volumes remained below last year's level until June 2010. Production remained strong over the summer at levels above a year ago, especially in the EU-15. With current returns and product needs, milk is mainly used for consumption milk or for cheese manufacture. Production levels of SMP, WMP, and butter are lower. Markets and prices are mostly steady to slightly higher. The market tone appears stable. With regard to butter and butteroil, market activity focuses on the internal market with limited exports, while export interest appears fair to good for SMP. For the quota year 2009/10, official communications received from the Member States confirm the provisional estimate of a 7% under-use of quota for the EU-27.

No negative impact has been observed on the market so far from the release of butter and SMP intervention stocks that started at the beginning of May under the most deprived persons' programme and by open tender.

### **2. SUPPLY AND DEMAND**

#### **EU**

Official communications received from the Member States confirm the initial estimate of a 7% under-use of quota for the year 2009/10. The undershoot is nearly twice that of the 2008/09 quota year. According to the figures received from the Member States, NL, DK and CY would have to pay a super levy.

<b>Milk deliveries versus delivery quotas</b> (without an estimate on fat correction for 2009/10)			
	Quota year 2008/09	Quota year 2009/10	Difference
<b>Milk quotas (deliveries)</b>	143 074 146	144 921 617	+ 1.29%
<b>Milk collection (April-March) - provisional</b>	137 603 380	134 745 432	- 2.08%
<b>Rate of quota use, based on provisional figures</b>	96.18%	92.98%	

With regard to the calendar year, cow's milk deliveries dropped by 0.6% in 2009 compared to 2008 and the trend continued in the first 4 months of 2010, largely due to the long cold and snowy winter. From May 2010 onward, monthly milk deliveries exceeded last year's level, but cumulative volumes remained below last year's level until June 2010. Member States' milk deliveries variations – both in volumes and percentages – for the first 7 months of calendar year 2010 compared to the same period in 2009 are shown in the table below (NB: no data for Malta).

<b>MS where cow's milk deliveries increased Jan-Jul 2010/2009</b>			<b>MS where cow's milk deliveries decreased in Jan-Jul 2010/2009</b>		
	in 1 000 t	diff in %		in 1 000 t	diff in %
<b>CY</b>	+ 2.5	+ 2.9%	<b>SI</b>	- 0.9	- 0.3%
<b>LV</b>	+ 9.3	+ 2.7%	<b>EE</b>	- 1.3	- 0.4%
<b>NL</b>	+ 162.2	+ 2.5%	<b>CZ</b>	- 35.6	- 2.5%
<b>IE</b>	+ 62.3	+ 1.9%	<b>PT</b>	- 33.4	- 2.9%
<b>DK</b>	+ 46.4	+ 1.7%	<b>PL</b>	- 184.4	- 3.4%
<b>LU</b>	+ 2.7	+ 1.6%	<b>LT</b>	- 24.5	- 3.4%
<b>AT</b>	+ 21.3	+ 1.5% *	<b>SE</b>	- 62.5	- 3.5%
<b>BE</b>	+ 22.6	+ 1.3%	<b>RO</b>	- 41.5	- 6.9%
<b>UK</b>	+ 92.2	+ 1.2%	<b>SK</b>	- 38.3	- 7.3%
<b>ES</b>	+ 36.2	+ 1.1%	<b>BG</b>	- 31.7	- 8.7%
<b>EL</b>	+ 2.7	+ 0.8% *	<b>HU</b>	- 91.5	- 10.7%
<b>FI</b>	+ 9.4	+ 0.7%			
<b>DE</b>	+ 75.9	+ 0.4%			
<b>IT</b>	+ 6.1	+ 0.1%			
<b>FR</b>	+ 10.7	+ 0.1%			

\* only January-June

Production remained strong over the summer at levels above a year ago, especially in the EU-15. With current returns and product needs, milk is mainly used for consumption milk or for cheese manufacture. Production levels of SMP, WMP, and butter are lower. With regard to butter and butteroil, market activity focuses on the internal market with limited exports, while export interest appears fair to good for SMP.

### Third Countries

NZ finished the last season (on 31 May) with production levels only just above the preceding season, largely due to the drought experienced in the North Island. While the NZ Ministry of Agriculture had published a 14% forecast increase in milk production for the 2010/11 season based on the fact that farmers will be motivated to increase production in line with higher milk prices ( $\pm$  31 c/l), cow numbers are up by an estimated 5.9% and soil moisture is back to normal, the NZ dairy industry expects production to increase by 3%. There is optimism about the outlook for the 2<sup>nd</sup> half of 2010 and into 2011, based on continued strong growth in dairy demand in China and the rest of Asia, the Middle East and North Africa, but tempered by price and currency volatility and an always

possible weakening of economies in major dairy consuming regions. According to latest reports, milk production is steady to higher and building towards the seasonal peak, generally seen in October. Current intakes are running, as expected, 2-3% higher than a year ago. The earthquake of 3rd September is reported to have only slightly impacted the dairy sector in the scope of what happened.

In **Australia**, after a 3.9% decrease in the 2009/10 season (and consecutive decreases in production across most dairy products, ranging from – 2.5% for whey powder to – 27% for butteroil - only exception is cheese: + 1.6%), milk production is projected to be 1% higher in the 2010/11 season, with some more optimistic projections of 2-3%. The 2009/10 milk year ended on a positive note, the herd wintered well and water reserves are replenished. Farmers may however adopt a conservative approach and pay down debt incurred in recent years rather than invest in expansion. According to latest reports, milk production appears steady to higher, but with considerable rainfall in some parts of the country and even some localized flooding, milk growth recently slowed.

In the **US**, milk production is seasonally trending lower, although volumes for June, July and August are reported as higher than in the same months last year. Ice cream demand has passed its peak, relieving some pressure on cream which nevertheless remains expensive, as butterfat yields have been lower than expected. Butter production is lower than desired and some concern is voiced that butter stocks might not be sufficient to cover domestic needs until the end of the year. The SMP market is firming, with low supply and increasing export interest. In July, the production of both butter (50 350 t) and food grade SMP (60 000 t) were below last year's levels as well as below last month's levels, while cheese production (400 200 t) was 4.7% above July 2009 and 0.2% above June 2010. The cheese market is however also characterised by tight supply. Prices received by farmers in August were up by 60 \$ compared to July at 16.6 \$/cwt for all milk.

US exports performed extremely well in the first 7 months of the year: cheese exports in January-July 2010 totalled 96 000 t (+ 61% compared to the same period in 2009). These exports account for 3.5% of US cheese production during the period. SMP exports totalled 188 000 t (+ 37%) and whey exports totalled 151 000 t (+ 31%) in the period January-July. Since CWT (Cooperatives Working Together<sup>1</sup>) reactivated the Export Assistance program on 18 March 2010, it has assisted exports of Cheddar, Monterey Jack and Gouda cheese totalling 19 019 t to 23 countries on 4 continents, and 13 575 t butter and anhydrous milk fat to 9 countries on 3 continents. The USDA forecasts milk production to increase from 85.9 million t in 2009 to 87 million t in 2010 (+ 1.4%) and 88.3 million t in 2011 (+ 1.4%), as milk cow numbers are higher than expected and yields increase. Exports are forecast high, reflecting strong sales of dairy products in the 1st half of 2010, relatively tight global supplies and higher than expected demand in a number of markets.

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<sup>1</sup> Cooperatives Working Together (CWT) is composed of US dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through December 2010, to fund 2 supply management programmes aimed at stabilizing the US price: the herd retirement scheme and the export assistance programme.

### 3. PRICES

EU prices for butter and cheese continued their increase in the 3 month period between the June report and the present one, while both powders experienced a limited decrease. World quotations expressed in €/t decreased for all dairy commodities, due to the fluctuations in the exchange rate between the € and the US\$. In US\$, prices went up. Currently, EU prices in € appear to be stabilising or firming again for some products, and no negative 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 (September 2010). The short term evolution of EU prices is tabled in Annex 1 while the longer term development is shown in Annex 2. Contrary to previous reports showing EU weighted average prices of the 7 main exporting countries, the present report focuses on EU weighted average prices of the main producing Member States.

€/t	EU intervention price/equivalent price	EU market price at the time of the previous report	Current EU market price <sup>(1)</sup>	Current EU price as percentage of real/virtual intervention price	World market price at the time of the previous report	Current world market price <sup>(2)</sup>
	(a)	(20 June 2010)	(b)	(b/a)%	(June 2010)	
Butter	2 218	3 515	<b>3 577</b>	+ 161%	3 300	<b>3 136</b>
SMP	1 698	2 315	<b>2 302</b>	+ 136%	2 429	<b>2 247</b>
WM P	2 066	2 919	<b>2 784</b>	+ 135%	3 137	<b>2 601</b>
Cheddar	2 484	2 962	<b>3 202</b>	+ 129%	3 129	<b>3 040</b>
Edam	2 167	2 922	<b>3 056</b>	+ 141%	-	-

Exchange rate used for the calculation of € amounts in September: 1 € = 1.3074 US\$ (ECB rate of 20/09/2010)

<sup>(1)</sup> Weighted average price of main producing MS    <sup>(2)</sup> Oceania quotations (Source: USDA Agricultural Marketing Service)

After a steady recovery from May 2009 to November 2009 and a stabilisation in the 1st quarter of 2010, contrary to the seasonal pattern, milk prices have been increasing month after month from April onwards, to reach an estimated EU average price of 30 c/kg in July (with data lacking for 1 Member State, replaced by DG Agri estimates). The seasonal increase in milk supply has not lead to a reduction in milk prices, thanks to strong dairy commodity prices. 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

Figures available for the period January-July 2010 (except for LU) show that EU exports continued to be particularly successful this year for cheese (377 100 t, + 19.2%), SMP (212 800 t, + 87%) and condensed milk (135 700 t, + 1.5%), but are loosing their dynamism for butter (69 700 t, - 1.6%), WMP (276 000 t, - 5.3%), whey powder (216 600 t, -1.5%) and butteroil (14 700 t, - 9%).

## 5. ACTIONS TAKEN SINCE LAST QUARTERLY REPORT

- Quantities of butter offered into **private stocks** have been significantly lower than in previous years: **83 058 t**. There may still be some corrections in the coming weeks. In 2009, the PSA campaign was extended until the end of February 2010 and an additional **17 611 t** were offered into private storage in that period. The total quantity available for removal from 16 August is thus **100 669 t**, compared with 134 600 t in 2009 and 160 400 t in 2008. The release of butter from public stocks (see below) under the most deprived persons' scheme and by open tender more than offset the difference with previous years.
- 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. No negative impact from the release of stocks has been reported so far on the market. For butter almost all stocks (except for some 1 500 t) have been sold. For SMP, there are still some 190 000 t uncommitted stocks, of which 79 000 t were made available for sale. The 1<sup>st</sup> sales took place on 9 and 23 September: 2 520 t SMP were sold.
- With regard to the recommendations issued by 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 – legislative proposals are scheduled 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 examined under the Quality policy package. Questions relating to possible changes to market measures, innovation and research as well as other aspects will be dealt with under the CAP reform post 2013, for which proposals will be made in the first half of 2011.

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## Annex 1: EU dairy prices

### Dairy Quotations - June 2010 and September 2010

Last update : 23.09.2010

#### Raw Milk Price in EUR/Tonne

	Jun.10	Sep.10	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>EU 27 Weighted Average</b>	<b>277</b>	<b>303 °</b>	+ 26	+ 10%
<i>NL spot prices</i>	<b>328</b>	<b>368</b>	+ 40	+ 12%
<i>North Ireland spot prices</i>	<b>322</b>	<b>303</b>	- 19	- 6%
<i>IT spot prices</i>	<b>376</b>	<b>423</b>	+ 47	+ 12%

<b>New Zealand</b>	<b>263</b>	<b>293 °</b>	+ 30	+ 11%
<b>U.S.A.</b>	<b>240</b>	<b>270 °</b>	+ 30	+ 12%

° Last available prices (July 10)

#### Commodities in EUR/Tonne

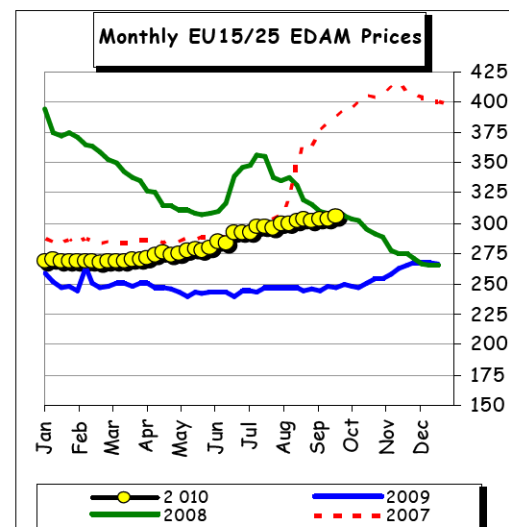
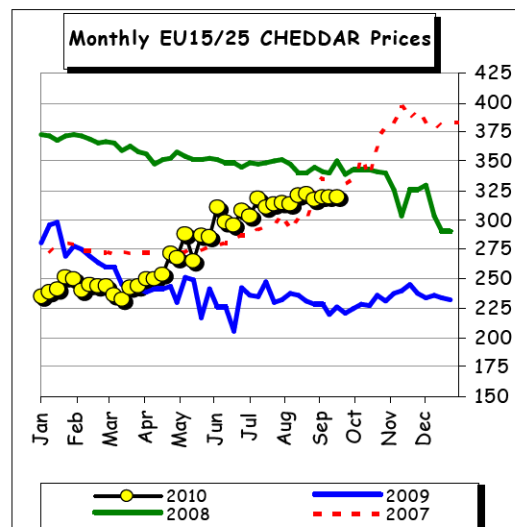
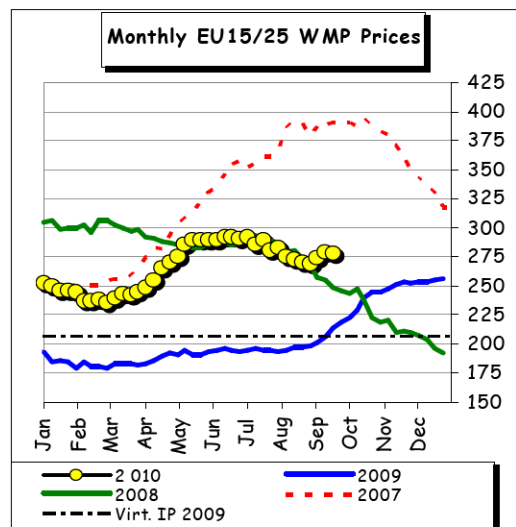
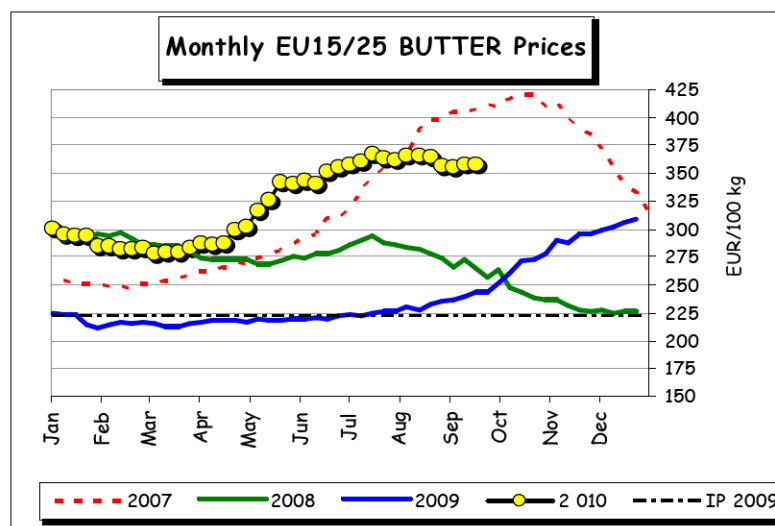
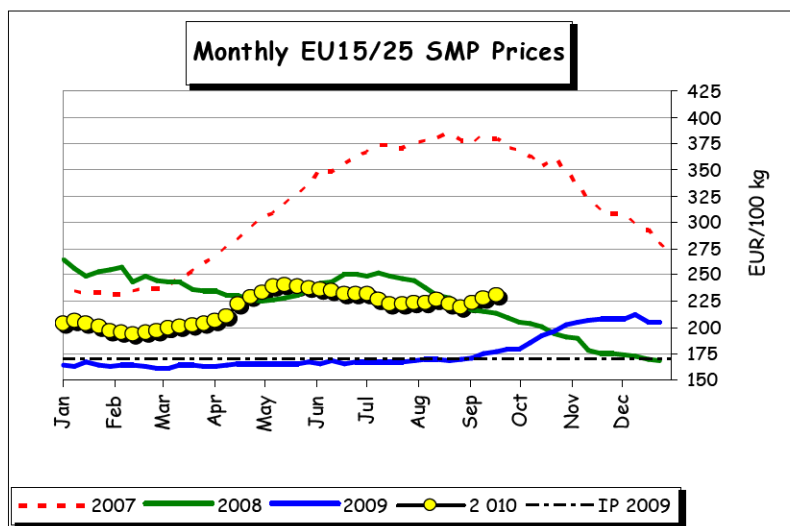
	EU 27			
	Jun.10	Sep.10	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>Butter</b>	<b>3 515</b>	<b>3 577</b>	+ 62	+ 2%
<b>Skimmed Milk Powder</b>	<b>2 315</b>	<b>2 302</b>	- 13	- 1%
<b>Whole Milk Powder</b>	<b>2 919</b>	<b>2 784</b>	- 135	- 5%
<b>Cheddar Cheese</b>	<b>2 962</b>	<b>3 202</b>	+ 240	+ 8%
<b>Gouda Cheese</b>	<b>2 868</b>	<b>3 024</b>	+ 156	+ 5%

	Oceania			
	Jun.10	Sep.10	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>3 300</b>	<b>3 136</b>	- 164	- 5%	
<b>2 429</b>	<b>2 247</b>	- 182	- 7%	
<b>2 815</b>	<b>2 485 *</b>	- 330	- 12%	
<b>3 137</b>	<b>2 601</b>	- 536	- 17%	
<b>3 080</b>	<b>2 775 *</b>	- 305	- 10%	
<b>3 219</b>	<b>3 040</b>	- 179	- 6%	

	U.S.A.			
	Jun.10	Sep.10	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>2 977</b>	<b>3 776</b>	+ 799	+ 27%	
<b>2 298</b>	<b>2 079</b>	- 219	- 10%	
<b>2 956</b>	<b>2 818</b>	- 138	- 5%	
<b>2 294</b>	<b>2 945</b>	+ 651	+ 28%	

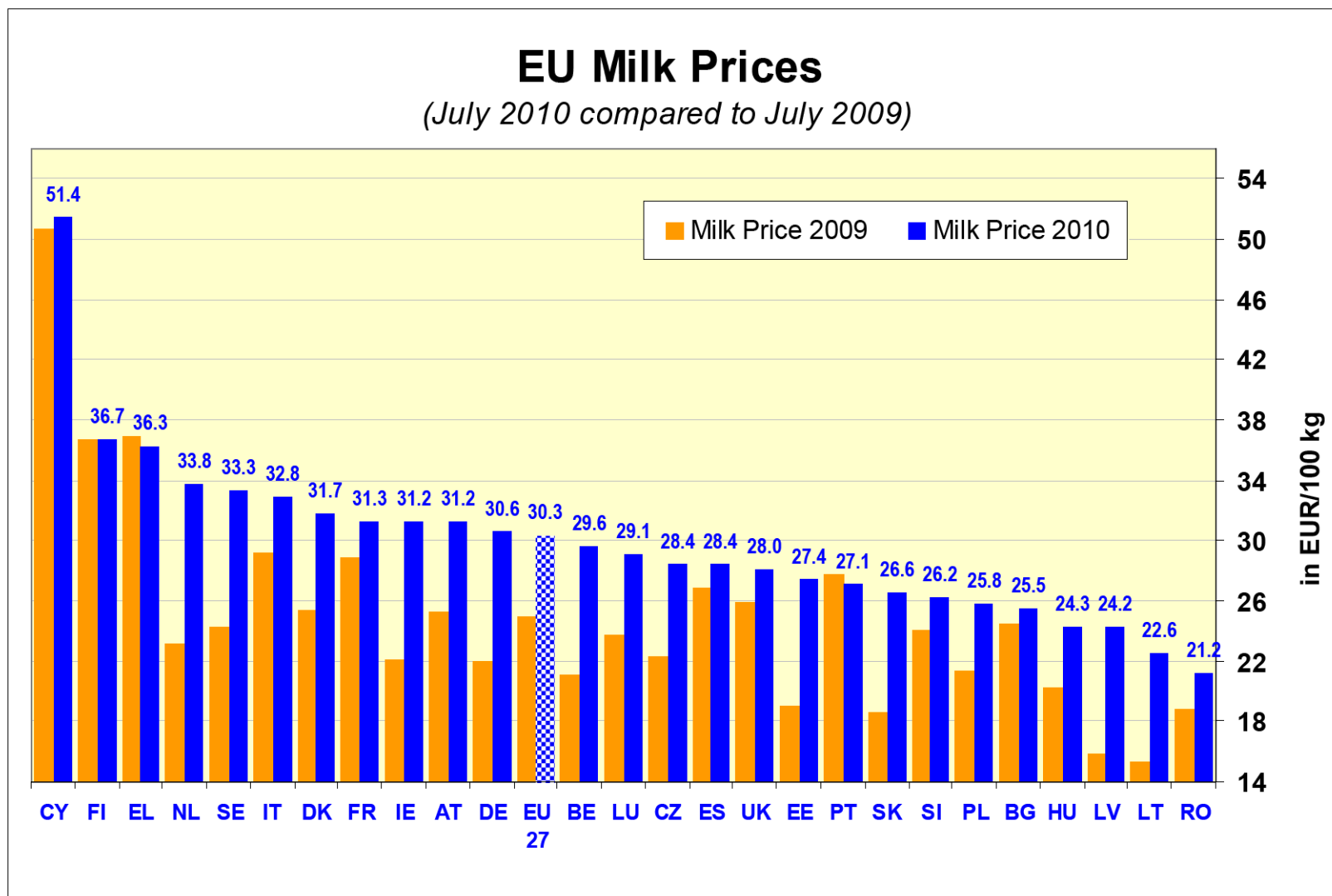
\* : Fonterra WMP and SMP Auction (NZ + australia)

## 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**

