Dairy market: trends

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1. World dairy market
2. European dairy market
3. Conclusion
Driving forces for dairy markets

1. Structural forces increasing demand
   - Economic growth (+ income elasticity, cities)
   - High oil prices
   - Consumer access to dairy products (retail, big companies)
   - Government programs, eg school milk
   - Convenience: prepared meals – dairy products as ingredient
   - New products
   - Health consciousness
Driving forces for dairy markets (2)

2. Structural forces influencing supply
   – Alternative activities for farmers:
     • biofuels, cereals, …
     • Work in another sector
   – Cost of producing milk (energy, feed, …)

3. Non-structural forces influencing supply
   – Weather (climate change ??)
   – Changes in policy: EU, India, Argentina, …
Trends

- Weather conditions will increasingly affect dairy prices
- Trade levels will remain a low share of global production
- Linkages with international markets will gradually improve over the longer term
- Demand continues to increase more rapidly than supply
Milk production gains

Source: OECD and FAO Secretariats.
Per capita consumption: strong variation
Outlook OECD 2016:
World cheese (cheddar) prices
Outlook OECD 2016: world butter prices
Outlook OECD 2016: world powder prices
Average EU/World Quotations of BUTTER and CHEDDAR

Prices in USD/tonne

- Avg World BUTTER quotation
- Avg EU BUTTER Internal price
- Avg World CHEDDAR quotation
- Avg EU CHEDDAR Internal price

World:
- BUTTER World
- CHEDDAR World

EU:
- BUTTER EU
- CHEDDAR EU

<table>
<thead>
<tr>
<th>EU: BUTTER</th>
<th>EU: CHEDDAR</th>
<th>World BUTTER</th>
<th>World CHEDDAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 700</td>
<td>3 650</td>
<td>4 972</td>
<td>4 178</td>
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</tbody>
</table>
World market dairy products

In the past
- Small
- Surplusses
- Very low prices (dumping)
- Very big price fluctuations
- Surrounded by high tariff walls

In the future
- Small but stronger link with other markets
- Mature
- Higher prices, lower than EU-prices except for shortages
- Still price fluctuations but somewhat smaller
- Tariff walls: somewhat lower
International Comparison of Milk Prices

EUR/100 kg

EU 15

USA

New Zealand

1) (Dairy years ended May)

Virtual World Milk Price

(Dairy years ended May)
Milk Prices and EU Support

Milk Price EU

Support by Intervention

Virtual World Milk Price

EUR/100 kg


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## Prospects EU-dairy 2014/2006

<table>
<thead>
<tr>
<th>% change</th>
<th>cheese</th>
<th>butter</th>
<th>smp</th>
</tr>
</thead>
<tbody>
<tr>
<td>consumption</td>
<td>+ 11,7</td>
<td>- 1,4</td>
<td>+ 0,6</td>
</tr>
<tr>
<td>production</td>
<td>+ 10,4</td>
<td>- 5,7</td>
<td>- 5,8</td>
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<tr>
<td>import</td>
<td>+ 16,0</td>
<td>- 8,3</td>
<td>+ 47,6</td>
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<tr>
<td>export</td>
<td>- 7,4</td>
<td>- 68,5</td>
<td>- 56,5</td>
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</table>
### Development on world level (2016 vs 2006)

<table>
<thead>
<tr>
<th>% change on annual base</th>
<th>cheese</th>
<th>butter</th>
<th>smp</th>
<th>wmp</th>
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</thead>
<tbody>
<tr>
<td>production</td>
<td>+ 1,3</td>
<td>+ 2,3</td>
<td>+ 1,0</td>
<td>+ 2,4</td>
</tr>
<tr>
<td>trade</td>
<td>+ 2,5</td>
<td>+ 2,2</td>
<td>+ 0,4</td>
<td>+ 3,4</td>
</tr>
</tbody>
</table>
Shifts in world dairy market shares

2000: 38.3 mln tonnes

2005: 41.6 mln tonnes
Situation 1.04.2015 - prognosis (1)

- Refunds abolished (even without WTO !)
- All internal support abolished (except for private storage ?)
- No public intervention stocks
- Lower tariffs (if WTO-agreement)
- Higher dairy consumption in EU
- Higher dairy consumption in the world
- Bio-fuels
Situation op 1.04.2015 – prognosis (2)

- Stronger environmental constraints
- World market prices considerably higher
- World market prices fluctuate less
- World market is influencing milk prices in EU, stronger fluctuations in EU than in the past
- If prices are too low, market will react
- Price is determining volume of production
- Dairy farming has to be attractive compared to other farming activities and to biofuels
Quota : point of view
Belgian Dairy Industry

1. Taking into account the following facts:
   – New CAP - MTR
   – Refunds and internal aids : lower level
   – decoupling

2. trends towards 2015:
   – Total abolishment of refunds and internal aid
   – Lower market protection
   – Higher world market prices
   – Attractiveness dairy farming wrt other sectors

Prolongation of quota after 2015, in order to keep internal prices high, is not effective and makes no sense
Conclusion: trends

1. Demand on world level grows stronger than supply
2. Higher world market prices
3. World market: less volatile
4. Impact of EU is further declining
5. EU-price level in the absence of market management measures:
   - Somewhat higher than world market level
   - Will become feasible in absence of quota rent
   - More volatile
   - If no attractive prices, no milk production
THANK YOU FOR YOUR ATTENTION

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